

**AMERICAN INNOVATION AND THE FUTURE OF  
DIGITAL ASSETS**

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**HEARINGS**

BEFORE THE

SUBCOMMITTEE ON COMMODITY MARKETS, DIGITAL  
ASSETS, AND RURAL DEVELOPMENT

AND THE

COMMITTEE ON AGRICULTURE  
HOUSE OF REPRESENTATIVES

ONE HUNDRED NINETEENTH CONGRESS

FIRST SESSION

APRIL 9, 2025; JUNE 4, 2025

**Serial No. 119-5**



Printed for the use of the Committee on Agriculture  
*agriculture.house.gov*

U.S. GOVERNMENT PUBLISHING OFFICE

63-755 PDF

WASHINGTON : 2026

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**AMERICAN INNOVATION AND THE FUTURE  
OF DIGITAL ASSETS  
(ON-CHAIN TOOLS FOR AN OFF-CHAIN WORLD)**

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**WEDNESDAY, APRIL 9, 2025**

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON COMMODITY MARKETS, DIGITAL ASSETS,  
AND RURAL DEVELOPMENT,  
COMMITTEE ON AGRICULTURE,  
*Washington, D.C.*

The Subcommittee met, pursuant to call, at 2:00 p.m., in Room 1300 of the Longworth House Office Building, Hon. Dusty Johnson [Chairman of the Subcommittee] presiding.

Members present: Representatives Johnson, Rose, Lucas, Austin Scott of Georgia, Mann, Nunn, Messmer, Taylor, Thompson (*ex officio*), Davis, Budzinski, Jackson, Thanedar, McDonald Rivet, Figures, Vindman, McClain Delaney, and Craig (*ex officio*).

Staff present: Paul Balzano, Wick Dudley, Timothy Fitzgerald, Kyle Upton, John Konya, Britton Burdick, Joshua Lobert, Clark Ogilvie, Ashley Smith, and Jackson Blodgett.

**OPENING STATEMENT OF HON. DUSTY JOHNSON, A  
REPRESENTATIVE IN CONGRESS FROM SOUTH DAKOTA**

The CHAIRMAN. The Committee will come to order. Welcome, and thanks for joining this hearing. It is entitled, *American Innovation and the Future of Digital Assets: On-Chain Tools for an Off-Chain World*. After brief opening remarks, Members will receive testimony from our excellent witnesses today, and then the hearing will be open to questions. In consultation with the Ranking Member, and pursuant to Rule XI(e), I want to make Members of the Subcommittee aware that other Members of the full Committee may join us today.

I am pretty excited. This is our first hearing of this Subcommittee on Commodity Markets, Digital Assets, and Rural Development, and I am particularly excited about the gentleman sitting to my right. Don Davis is a great human being, a great Member of Congress. We worked together on this digital assets stuff in the last Congress. I enjoyed working with Yadira, and I am going to enjoy working with Don as well.

Mr. Davis isn't the only one in a new role. Half of this Subcommittee are new Members to the Subcommittee. So we are going to be doing a lot of learning together, and I am sure I speak for Don as well in that we are excited to have a new crop of people, excited to make sure that these commodity markets and rural de-

velopment and crypto issues work well. And, of course, a portion of our work, an important portion, is digital assets, and that is what today's hearing is on. But it is certainly not the only thing we deal with in this Committee. Of course, rural development, rural energy, Commodity Futures Trading Commission, legislation to reauthorize the CFTC, this is all going to be a part of the work that we are going to do together.

In the digital assets space, the way it was last Congress, that the full Committee did an extraordinary job, working in a bipartisan way, and with the folks at Financial Services, to craft and then pass the bipartisan comprehensive market structures bill, the Financial Innovation and Technology for the 21st Century Act, FIT21 (H.R. 4763, 118th Congress). It passed the House floor by 279 to 136. I think Don has those numbers tattooed on his upper arm. He will show you if you ask, pretty please, nicely.

And we are going to pick up right where we left off. Earlier today, Chairman Steil's Digital Assets Subcommittee on the Financial Services side held their first hearing on market structure. That was not a coincidence. Just like last Congress, everything we do, we are going to be doing in tandem and working together. We are united and committed to advancing comprehensive, bipartisan market structure legislation, and getting it to the President's desk. Our legislation will bring legal certainty to issuers and to users of digital assets. There will be clear customer protections to buyers of digital assets. And it is going to foster an environment of investment and innovation, and that is going to benefit the whole country.

Today, we are going to hear from entrepreneurs who are using blockchain and digital assets to solve real-world problems. Again, we get back to the title of this hearing, *On-Chain Tools for an Off-Chain World*. Some of these concepts, some of these solutions are really fun. And then that way it is not about crypto, it is about cattle guys, trying to figure out how to make it easier and more profitable for ranchers to market their cattle. It is about a gifted engineer trying to make a less expensive, more robust, more precise GPS system for precision agriculture and other location-based systems. It is about a law professor who is building automated systems to help developers comply with legal disclosures in a way that consumers can actually understand.

Our work on market structure legislation is ultimately about how to ensure that those ranchers, those engineers, those professors, and many, many others, can use digital tools to bring their ideas to life, and to power the American Dream.

We have a terrific panel of witnesses to help us understand that work, and the legal landmines which can disturb and slow innovation. I am looking forward to today's hearing and our work over the new few months. And, of course, ultimately, punching FIT21 across into the end zone and onto the President's desk.

[The prepared statement of Mr. Johnson follows:]

PREPARED STATEMENT OF HON. DUSTY JOHNSON, A REPRESENTATIVE IN CONGRESS  
FROM SOUTH DAKOTA

Good afternoon. Welcome to our first meeting of the Subcommittee on Commodity Markets, Digital Assets, and Rural Development for the 119th Congress.

I want to congratulate Don Davis from North Carolina as our new Ranking Member. I know I'll enjoy working with you as I enjoyed working with your predecessor, Yadira Caraveo.

Mr. Davis isn't the only one in a new role—almost half our Subcommittee is new compared to last Congress. I think I can speak for the Ranking Member and say that we are thrilled to have you on this Committee.

A portion of our work is digital assets, which we will focus on today. In the coming months, we will focus on the Committee's rural development and rural energy priorities, oversight of the Commodity Futures Trading Commission, and legislation to reauthorize the CFTC.

Last Congress, this Committee did extraordinary work with our colleagues on the Financial Services Committee to craft and pass a bipartisan, comprehensive digital asset market structure bill—the Financial Innovation and Technology for the 21st Century Act. FIT21 passed the House with great bipartisan support by a 279–136 vote.

We are picking up right where we left off last Congress. Earlier today, Chairman Steil's Digital Asset Subcommittee of the Financial Services Committee held their first hearing on market structure. This was not a coincidence—we'll be working side by side on legislation again this Congress.

We are united and committed to advancing comprehensive, bipartisan market structure legislation to the President's desk. Our legislation will bring legal certainty to issuers and users of digital assets, clear customer protections to buyers of digital assets, and new innovations to all Americans.

Today, we are going to hear from entrepreneurs who are using blockchains and digital assets to solve real-world problems.

This conversation isn't really about crypto, but it's about a few cattle guys trying to figure out how to make it easier and more profitable for ranchers to market their cattle.

It's about a gifted engineer trying to make a less expensive, more robust, and more precise GPS network for precision agriculture and other location-based systems.

It's about a law professor who is building automated systems to help developers comply with legal disclosure requirements in a way that consumers can actually understand.

It's about new ways to solve old problems, and these new ways use public blockchains.

Our work on market structure legislation is ultimately about how to ensure that ranchers, engineers, college professors, and others can use digital tools to bring their ideas to life and unleash their American Dream.

We have a terrific panel of witnesses to help us understand the work to develop new projects and the legal landmines which can disturb that effort and slow innovation.

I am looking forward to today's hearing, our work over the next few months, and ultimately, putting a bill on President Trump's desk.

With that, I will recognize my friend, the new Ranking Member of the Committee, Don Davis.

The CHAIRMAN. With that, I want to welcome the distinguished—and recognize the distinguished Ranking Member, the gentleman from North Carolina, Mr. Davis, for any opening remarks he would like to give.

**OPENING STATEMENT OF HON. DONALD G. DAVIS, A  
REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA**

Mr. DAVIS. Well, thank you so much, Mr. Chairman, and I look forward to continued service with you on this Committee. Thank you so much for not only your service to our country, but in particular for the work that we have done, and I believe what we will continue to do, on this Committee. And to all of the Members, and to our witnesses, thank you for being with us today.

I would like to—in particular—to highlight and just thank our Ranking Member as well as our Chairman for their leadership and giving us guidance for the work before us in the 119th Congress.

Just this past month I had the privilege of participating in the Digital Chambers' chambers of the DC Blockchain Summit. We came together to reinforce what I think is a simple but powerful idea, and that is digital asset policy remains vital for American innovation.

My priorities in particular as we move forward over the 119th for our Subcommittee: market structure, one, getting digital market structure legislation across the finish line to provide our markets with certainty, the certainty that is necessary so that we can continue to operate to ensure that the United States remains a leader. The future is counting on us, and I truly believe that, and we must rise for this occasion that is before us now. Number two, CFTC. Next, we must reauthorize the CFTC with increased work for the CFTC coming on the future market structure and other related legislation, we need to ensure the CFTC is reauthorized and that they are provided with adequate ability and staffing to carry out its job. And third, which is shifting gears a little bit for me, but I think I speak volumes for rural America, which I understand in the First Congressional District of North Carolina, we rely tremendously on Rural Development. Broadband deployment, community facility support, and all the USDA rural development programs. These are essential for our rural communities. These priorities come with the need for a commitment to move forward on this Subcommittee, a commitment for holding hearings, roundtables, events, whatever it takes, we are committed, Mr. Chairman, and to those who are here.

As the House Financial Services Committee advances legislation, it is vital that our Subcommittee keeps pace. Our jurisdiction—commodity markets, digital assets, and rural development—places us at an intersection of innovation and making a difference in the lives of many people across this nation, and I do not take that lightly. Any legislative framework we move forward must account not only for market structure and investor protection, but also for innovation happening far from the trading floors, innovation that can empower rural America, improve public services, and unlock economic opportunity where it is needed most.

I look forward to working with you, Mr. Chairman. And thank you so much for the witnesses that are here again today.

[The prepared statement of Mr. Davis follows:]

PREPARED STATEMENT OF HON. DONALD G. DAVIS, A REPRESENTATIVE IN CONGRESS  
FROM NORTH CAROLINA

Good afternoon. I thank our Subcommittee Chairman, Dusty Johnson, and our witnesses for your service and commitment to such an important topic.

Just this past month, I had the privilege of participating in The Digital Chamber's DC Blockchain Summit. We came together to reinforce a simple but powerful idea: digital asset policy remains vital for American innovation.

My priorities for the Subcommittee are:

Getting digital market structure legislation across the finish line to provide our markets with the certainty they need to continue to operate and to ensure they remain in the U.S. and not abroad. The future is counting on us and we must rise for the occasion.

Next, we must reauthorize the CFTC. With increased work for the CFTC coming under future market structure and other related legislation, we need to ensure the CFTC is reauthorized and provided with the adequate ability and staffing to carry out its job.

Finally, North Carolina's First Congressional District and rural America rely on Rural Development. Broadband deployment, community facilities support, and all of the USDA RD programs that support our rural communities.

These priorities come with the need for the Subcommittee to hold hearings, roundtables, and events focused on the Subcommittee's work.

As the House Financial Services Committee advances legislation, it's vital that our Subcommittee keeps pace. Our jurisdiction—commodity markets, digital assets, and rural development—places us at the intersection of innovation and making a difference in the lives of many across the nation.

Any legislative framework we move forward must account not only for market structure and investor protection but also for innovation happening far from the trading floors, innovation that can empower rural America, improve public services, and unlock economic opportunity where it's needed most.

I look forward to working with Chairman Johnson to schedule these events and to move forward with good legislation that unlocks American ingenuity.

Now to shift to the focus of the hearing today. Blockchain technologies uses for non-crypto applications.

So often, when we hear about blockchain, it's focused on cryptocurrencies and digital finance. Many don't understand that blockchain technology can be used across industries for countless reasons.

Today's hearing provides us with an opportunity to educate the Members of the Subcommittee so that we can educate our constituents and better connect the technology to how it impacts their daily lives.

The potential of this technology in improving processes for industries across the U.S. is limitless. That is why we need to be better messengers and communicators around this complicated technology. I know the first time I heard about it from my son, it took me a while to grasp it.

For the House Agriculture Committee, the usage of this technology increases across the country, and as the technology continues to improve, all districts across the country will benefit. Whether it be small businesses, farmers, rural communities, or under-invested communities like the ones I represent in eastern North Carolina.

I look forward to hearing from the witnesses about the various ways that they are using blockchain technology. I think it will serve as an opportunity to learn how we can help assist our home communities in accessing and using the technology to allow them to thrive.

The CHAIRMAN. Before we recognize the Chairman and the Ranking Member for their opening comments, after consultation with Ranking Member Craig and Ranking Member Davis, I would ask for a UC to limit the questioning time for Members to 4 minutes, and I will tell you why we want to do that. Votes are going to get called, and rather than just shut down people at the end of the dais, we thought if we all took a little bit less, we could share more bountifully with all. And so I would ask for a UC on that. Is there any objection? Hearing no objection, Members will be given 4 minutes of questioning time. And listen, if there are issues we still have to resolve and votes haven't been called yet, we will do another round. Right? It is not about shutting anybody down.

And then for our witnesses, Mr. Davis and I will kind of run this thing together. So if he recognizes you, don't think he is going rogue, we just kind of like to tag team this a little bit.

And so with that, I would recognize the Chairman of the full Committee, Mr. Thompson, for whatever remarks he would make.

**OPENING STATEMENT OF HON. GLENN THOMPSON, A  
REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA**

Mr. THOMPSON. Well, thank you, Mr. Chairman. I am going to congratulate you, Mr. Chairman, on your reappointment as Chairman of the Subcommittee. You were a key part of our success on digital assets last year, and I am so pleased that you have agreed to take on this role again. And, Ranking Member Davis, congratu-

lations on your appointment as Ranking Member. I know how excited you are to take on this role. I know that the two of you are going to do a great job leading the Committee's work on digital assets, rural development, and derivatives. I also want to welcome all the Members of the Subcommittee here today. And again, for the 119th Congress there was a great demand to serve on this Subcommittee, in no small part because of the opportunity to work on the digital asset issues.

I am so excited for the work of the Subcommittee to continue. I want to thank you all for your willingness to serve on it. There is great potential for digital assets to provide significant value for the American public and American agriculture, not just in monetary terms, but as tools to solve real world problems as we will hear about today. But as we will also hear about today, digital asset developers, users, and institutions still need clear, thoughtful rules of the road to create these solutions. Congress wants to act so that we do not lose out on this American innovation. And I want to underscore what Chairman Johnson said, we are once again working hand in glove with the House Financial Services Committee to craft legislation that would do just that. This is perhaps unusual for Congress, but it is the right thing to do to make good public policy.

I want to thank House Financial Services Chairman French Hill and their Digital Assets Subcommittee Chairman Bryan Steil for their partnership. Chairman Steil held a great Subcommittee hearing on digital assets earlier today.

No one can solve this issue alone. It takes cooperation of committees and regulators to build a workable framework to oversee digital assets. The result of this approach last Congress was our digital asset market structure bill, FIT21, passing the House with a strong bipartisan vote.

Finally, I also want to thank our witnesses for coming today from different parts of the country to share their expertise with us, and I look forward to your testimony and discussion that follows.

Thank you, Mr. Chairman, Mr. Ranking Member, and I yield back.

[The prepared statement of Mr. Thompson follows:]

PREPARED STATEMENT OF HON. GLENN THOMPSON, A REPRESENTATIVE IN CONGRESS  
FROM PENNSYLVANIA

Thank you, Mr. Chairman.

I want to congratulate you on your reappointment as Chairman of the Subcommittee. You were a key part of our success on digital assets last year, and I am so pleased you've agreed to take on this role again.

And Ranking Member Davis, congratulations on your appointment as Ranking Member. I know how excited you are to take on this role.

I know that the two of you are going to do a great job leading the Committee's work on digital assets, rural development, and derivatives.

I also want to welcome all of the Members of the Subcommittee here today.

Again for the 119th Congress, there was a great demand to serve on this Subcommittee, in no small part because of the opportunity to work on digital asset issues.

I am excited for the work of the Subcommittee to continue. I want to thank you all for your willingness to serve on it.

There is great potential for digital assets to provide significant value for the American public and American agriculture.

Not just in monetary terms, but as tools to solve real world problems, as we'll hear about today.

But, as we'll also hear about today, digital asset developers, users, and institutions still need clear, thoughtful rules of the road to create these solutions.

Congress must act so we do not lose out on this American innovation.

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The result of this approach last Congress was our digital asset market structure bill, FIT21, passing the House with a strong bipartisan vote.

Finally, I also want to thank our witnesses for coming today from different parts of the country to share their expertise with us.

I look forward to your testimony and the discussion that follows.

I yield back.

The CHAIRMAN. The gentlewoman from Minnesota, Ms. Craig, is recognized.

**OPENING STATEMENT OF HON. ANGIE CRAIG, A  
REPRESENTATIVE IN CONGRESS FROM MINNESOTA**

Ms. CRAIG. Thank you so much, Mr. Chairman. I want to thank the Subcommittee for holding this hearing. The two of you are already demonstrating an amazing ability to work on a bipartisan basis, so thank you for that, particularly in this Congress.

There is a wide range of views in Washington, of course, surrounding cryptocurrencies, and while these new financial products have their supporters and detractors, I think there is one thing everyone can agree on; we need to establish a clear and comprehensive regulatory structure to govern crypto. Today though, this Subcommittee is reviewing a different question, which I appreciate, by looking beyond crypto at the potential other uses of the underlying technology that makes crypto possible, blockchain technology.

Blockchain technology is not crypto, but basically is the operating system upon which it is built. And like other operating systems we are more familiar with on our phones or computers, people can build applications on the blockchain that serve real-world, non-crypto purposes.

Today we will be hearing from some of our witnesses who will talk about those non-crypto use cases of distributive ledger technology, like blockchain, and it is important that we learn about these uses.

As Congress works to develop legislation to establish a regulatory structure for the financial products that use blockchain technology, we do not want to inadvertently stifle innovation of non-financial uses of the technology. At a time when it seems that many of the bills that Congress votes on seem designed to foster partisan conflict, I am hopeful that the Committee's and Subcommittee's potential work in this space can lead to legislation that can win broad, bipartisan support. If we are successful in that effort, it will not be because of the meme coins issued by the President and his family, or the cryptocurrency companies they buy. Those efforts actually undermine the credibility of the entire industry. Instead, our

success will be built on the stories we hear today; stories of ordinary Americans trying to do what Americans do best; innovate.

I look forward to hearing our witnesses today. And I thank the Chairman and Ranking Member of this Subcommittee, as well as Chairman Thompson, for bringing all of us together.

And with that, I yield back.

The CHAIRMAN. If there are any other Members with opening statements, of course, they can submit those for the record.

And with that, we will recognize our witnesses. Our first witness is Mr. Bill Hughes, Senior Counsel and Director of Global Regulatory Matters, with Consensys Software, Inc.

Mr. DAVIS. And our next witness is Mr. Mark Tague, the Co-Founder and Chief Revenue Officer of CattleProof Verified, LLC. And our third witness today is Mr. Mike Horton, the Project Creator at GEODNET Foundation.

The CHAIRMAN. Next witness is Dr. Chris Brummer, who is the Sesquicentennial Professor of Financial Technology at Georgetown. He is also the Chief Executive Officer at Bluprynt.

Mr. DAVIS. And our fifth and final witness today is Mr. Coy Garrison, who is a Partner at Steptoe LLP.

The CHAIRMAN. Although we are cutting ourselves a little short, we are not cutting your testimony time short, of course. And so, Mr. Hughes, you are recognized for 5 minutes.

**STATEMENT OF WILLIAM “BILL” C. HUGHES, J.D., SENIOR COUNSEL AND DIRECTOR OF GLOBAL REGULATORY MATTERS, CONSENSYS SOFTWARE INC., ARLINGTON, VA**

Mr. HUGHES. Thank you, Mr. Chairman, Chairman Johnson, Ranking Member Davis, and the distinguished Members of the Subcommittee. I thank you for this invitation to testify about how blockchain is a special technology that allows us to innovate in all aspects of the American economy, including the agriculture sector.

I work as a senior legal counsel at Consensys Software, a software developer that is headquartered in Fort Worth, Texas. Our business is helping to build the next version of the internet, often called Web3, using primarily the Ethereum blockchain. Ethereum is the first and most established programmable blockchain. So just like Bitcoin, it allows you to safeguard your own assets without a bank or custodian, and to send funds without a payment intermediary. But unlike Bitcoin, it additionally supports software programs, often called smart contracts, that greatly expand what the network can do.

New computer networks like Ethereum have enticed meaningful computer engineering talent to migrate to the blockchain space to build the apps that will impact our future. What we see with Ethereum is the building of a new world computer where anyone can build software programs that replace service providers, and where everyday people can enjoy better access to important services.

Consensys has been closely tied to Ethereum since 2016. Our flagship offering is the MetaMask Wallet, which you can find in basically every app store. It is the most popular self-custody wallet software in digital assets, with over 100 million users worldwide. MetaMask is a browser interface, essentially. It allows you to read

the blockchain, to execute transactions on your own behalf, and to safeguard your digital assets. Those assets include digital dollars. Native digital assets like Bitcoin and Ether and NFTs that could represent art or essentially any ownership of a real-world asset.

A wallet like MetaMask is the link that brings the digital assets to today's internet, so it is a critical piece of tooling. Blockchain unlocks a software application frontier that can meaningfully impact the real world in ways that the current internet simply cannot. Much attention is paid to the financial applications of decentralized finance and to payment stablecoins, and rightly so. They are indeed powerful new innovations that will mature as the technology evolves, and the economic and investment activity in traditional finance slowly moves to blockchain. But blockchain applications are much more diverse than finance, and I think we have recognized this today so far. Developers are creating apps with commercial and social applications.

Blockchains and blockchain apps, if we take a step back, are all grounded on basic economic incentives. On most blockchains there is a native digital asset, which is the foundation of that incentive structure. For example, on the Ethereum network, Ether is the native digital asset. It is how users pay for moving value, or accessing software applications on the network. Ether is how the people who maintain the network infrastructure voluntarily are paid for their work. You can think of it this way, if the Ethereum blockchain was an engine, Ether is the gasoline on which it runs.

There are thousands of developers using these blockchains to build services to solve real-world problems. I am very interested to hear more about two such projects which are going to be testifying here today. They are just two examples of what is possible if the market is provided the freedom and clarity to innovate. We are at a watershed moment today with an opportunity to move on from the past several years of outdated thinking. While the rest of the world has updated policies to embrace innovation, the U.S., unfortunately, has lagged behind, threatening its leadership role on this issue, but I think it is a new day and America is back open for blockchain businesses of all stripes. And you see that out in the market, people are coming back, new companies are coming into the space, especially from overseas. Durable clarity on the law is what we need today to ensure that we can capture the opportunities presented by blockchain technology. What we can build is only limited by our imagination and the law.

So I am pleased to be with you today to explore these topics, and we at Consensus applaud this Committee, and this Subcommittee in particular, for taking an important leadership role on these issues. Thank you.

[The prepared statement of Mr. Hughes follows:]

PREPARED STATEMENT OF WILLIAM "BILL" C. HUGHES, J.D., SENIOR COUNSEL AND DIRECTOR OF GLOBAL REGULATORY MATTERS, CONSENSYS SOFTWARE INC., ARLINGTON, VA

Chairman Johnson, Ranking Member Davis, and distinguished Members of the Subcommittee, I thank you for the invitation to testify about how blockchain is a special technology that allows us to innovate in all aspects of the American economy, including the agriculture sector. Regulation of the blockchain space is an important debate for our elected representatives to have, especially this year as indus-

try-defining legislation is brought to the fore. Permission-less blockchain networks are new technologies that have real value and present exciting new opportunities that will impact our real-world lives.

I work as a senior legal counsel at Consensys Software Inc., a software developer that is headquartered in Fort Worth, Texas and employs over 300 persons across the U.S. and another 300 around the world. Our business is helping to build the next version of the internet, often called Web3, using the Ethereum blockchain. Ethereum is the first and most established programmable blockchain. Just like Bitcoin, it allows you to safeguard your own assets without a bank or other custodian and to send funds without a payment intermediary. But unlike Bitcoin, it additionally supports software programs that greatly expand what the network can do. Anyone in the world with the requisite computer skills can publish a software program on Ethereum for anyone else in the world to access. Anyone can also participate in maintaining the network itself and processing new transactions.

New computer networks like Ethereum have enticed meaningful computer engineering talent to migrate to the blockchain space to build the apps that will impact our future. What we see with Ethereum is the building of a new world computer for which anyone can build software programs that replace service providers, and everyday people can enjoy better access to important services. And this world computer has special characteristics: a Big Tech company cannot pick winners and losers; there are no software black boxes; and the data is resilient and incorruptible. It gives us the chance to move past this era of tech oligopoly where we can trust systems again.

Consensys has been closely tied to Ethereum since 2016. Both those who build on blockchain and those who use blockchain day to day are the main audience for our flagship offering, the MetaMask wallet, which you can find in every app store. It is the most popular self-custody wallet software in digital assets with over 100 million users. MetaMask is a browser interface that allows you to read the blockchain and to execute transactions on your own behalf. Wallets ensure Web3 user security because they are the technology safeguarding a user's digital assets.<sup>1</sup> Those digital assets can represent almost any kind of asset: digital dollars, native digital assets like Bitcoin or Ether, or NFTs that represent art or ownership of real-world assets.

A wallet like MetaMask is the link that brings digital assets to today's internet, so it is a critical piece of tooling. And as wallet technology matures, it will make Web3 accessible, intuitive, and useful for everyone, giving rise to a swath of new applications that can be brought to market directly and that users can connect with directly, cutting out Big Tech gatekeepers.

When you use a wallet to access on-chain software, programs which are frequently referred to as "smart contracts", you unlock a software application frontier that can meaningfully impact the real world in ways that the current internet with today's apps simply cannot. Much attention is paid to the financial applications in decentralized finance ("DeFi") or to payment stablecoins. And rightly so—they are indeed powerful new innovations that will mature as more economic and investment activity move online.<sup>2</sup>

But blockchain applications are much more diverse than finance. Developers are creating apps with commercial and social applications.<sup>3</sup> Other applications focus on building out physical networks by incentivizing people to build and maintain network infrastructure. Yet others are delving into the world of artificial intelligence, both by changing how AI models work and by improving how we use them. Some projects aim at solving tricky problems while preserving privacy, including how we can fight deep fakes so we can begin to trust information we get over the internet.

The foundation for these apps and the blockchains upon which we build them are basic economic incentives. Open computer networks allow anyone to join and anyone participate in them, but they do not work without incentives that drive participants to play by the system's rules. Starting with Bitcoin, blockchains are built so that people are heavily incentivized to play by the rules. Regulation should embrace that. Maintaining the conditions for those incentives to work their economic magic should be the goal of any regulation of the space.

<sup>1</sup>To learn more about self-custody digital wallets, please visit MetaMask Learn found at <https://learn.metamask.io/> (last visited April 7, 2025).

<sup>2</sup>Indeed, Ethereum has more DeFi activity and stablecoin volume than any other chain.

<sup>3</sup>Consensys highlighted some of these app developers in our "Web3 Builders" series, which may be found at <https://consensys.io/blog/builder-stories-back-represent-web3-innovation-matters-most> (last accessed April 7, 2025) and <https://consensys.io/blog/the-essence-of-web3-is-its-people-meet-the-builder-stories> (last accessed April 7, 2025).

On most blockchains, including the Bitcoin blockchain, Ethereum, and many others, there is a native digital asset which is the foundation of that incentive structure. For example, on the Ethereum network, Ether is the native digital asset, and it is how Ethereum users pay for moving value or accessing software applications on the network. Ether is paid to the people who maintain the infrastructure of the network and confirm the transactions. Ether has value because it is the only way to access the Ethereum network and the applications that people have built on it.

In this way, Ether is akin to gasoline, while the blockchain itself is akin to an engine. Without Ether, blockchain transactions would not process, and without the blockchain, there would be no need for Ether. Together, they allow millions of Americans and other people around the world to coordinate productively to operate the first truly global computer platform.

We should embrace the fact that blockchains like Ethereum incentivize participants to play by the rules by offering a financial reward in the form of a token. Those tokens exist only on the blockchain ledger, and serve an important function without which the blockchain would not work.

There are thousands of developers using these blockchain-based tools to build services to solve real-world problems. A network like Ethereum is the foundation of their applications. Two such projects are here to testify about their own work. But, they are just two examples in an almost limitless universe. Just like we could not imagine the services that people would develop in the early days of the internet, we can only speculate today about what people will develop in the future with blockchains and digital assets, if provided the freedom to do so.

We are at a watershed moment today with the opportunity to move on from the past several years of outdated thinking. While the rest of the world has updated policies to embrace innovation, the U.S. has lagged behind, threatening its leadership role on this issue.

But it is a new day, and America is back open for blockchain businesses of all stripes. Those in this space are heartened by bipartisan interest in the technology and the growing familiarity among the ranks of Congress. Durable clarity on the law is what we need today to ensure we can capture the opportunities presented by blockchain technology. What we can build is limited only by our imagination and the law. I am pleased to be with you today to explore these topics, and we at Consensus applaud this Committee for taking an important leadership role on these issues.

Mr. DAVIS. At this time we will recognize Mr. Mark Tague for up to 5 minutes.

**STATEMENT OF MARK TAGUE, CO-FOUNDER AND CHIEF REVENUE OFFICER, CATTLEPROOF VERIFIED INC., CHEYENNE, WY**

Mr. TAGUE. Chairman Johnson, Ranking Member Davis, distinguished Members of the Subcommittee, thank you for the opportunity to speak with you today.

My name is Mark Tague and I come to you not just as a tech founder, but as a fourth-generation cattleman. My family has stewarded the same land in Oklahoma for over a century; land that was originally allotted to my Chickasha great-grandmother by the Dawes Act of 1887 (Pub. L. 49–43, An Act to provide for the allotment of lands in severalty to Indians on the various reservations, and to extend the protection of the laws of the United States and the Territories over the Indians, and for other purposes.), following the Indian Removal Act of 1830 (Pub. L. 21–148, An Act to provide for an exchange of lands with the Indians residing in any of the states or territories, and for their removal west of the river Mississippi.). Our ranch is proudly recognized by the State of Oklahoma as a centennial ranch, honoring 100 years of continuous family ownership.

I am also the Co-Founder and Chief Revenue Officer of CattleProof Verified, a Wyoming-domiciled and USDA certified process verified program provider, operating at the intersection of

agricultural provenance, blockchain infrastructure, and rural economic development. Our mission is to bring integrity, transparency, and innovation to one of the most critical and most overlooked sectors of the American economy, the livestock and commodity markets.

At the core of our solution is something deceptively simple; it is verifiable data. In an age where trust drives markets, American agriculture is still being held back by fragmented systems, paper trails, and lack of transparency. That is not just inefficient, it is expensive, and it is unfair to both producers and consumers.

CattleProof is building on-chain tools for off-chain assets; namely, real-world commodities, like cattle feed and pasture, that need provenance, auditability, and programmable trust. But let me be clear, we are not asking ranchers to become technology experts or replace markets. We are building tools that work in the background, quietly adding security, efficiency, and access.

Here is how it works. One, verification at the source. Ranchers enter data, upload verified documents—breed registration, vaccination records, feed logs, location data, into our system. That information is cryptographically signed and anchored on chain, creating a USDA-certified digital identity for each animal.

Two, proof of provenance. Once these credentials are in place, downstream partners; blenders, packers, insurers, regulators, even retailers, can verify claims instantly without relying on a centralized authority.

Three, tokenization of livestock and inputs. Representing ranch assets as tokens on a blockchain enables fractional ownership, collateralization and real-time liquidity, opening the door for real financial inclusion. For instance, a young rancher could tokenize part of a verified herd to raise working capital through decentralized lending pools.

Four, settlement and reporting. Using blockchain ensures audit trails and automated compliance with evolving and domestic and export regulations, something that is increasingly important in global trade.

And five, stablecoin payments. CattleProof intends to integrate on-chain payments for cattle and other assets using the anticipated Wyoming Stable Token. WYST can enable users to transmit dollar-denominated transactions of any value, anywhere in the world, nearly instantly with significantly reduced fees compared to traditional ACH or wires. This reduces counterparty risk and the concept of float from transactions.

Let me emphasize, this is not hypothetical, this is live. Our ranchers are already using CattleProof today. For example, the Choctaw Nation ranches, a sovereign Tribe in Oklahoma, are using CattleProof to create public trust and transparency in their progressive animal handling and land stewardship practices via USDA process verified programs.

But if we want rural America to be part of the digital economy, truly part of it, we need regulatory clarity and digital infrastructure to match. Here is why this matters. Rural America is often left behind when it comes to fintech innovation. Blockchain gives us the rare opportunity to reverse that. Digital assets need real-world use cases. Agriculture is the perfect test-bed, combining blockchain

technology with inputs from RFID tags and other data captured can create verifiable records of an asset's lifecycle. Commodities represent trillions in value. If we bring these assets on chain with transparency and trust, the U.S. can lead the next era of programmable real-world markets.

To help us get there, we need your help to make digital asset market structure right. New digital asset tools depend on low cost, fast, and transparent settlement, a clear legal framework for stablecoins like the STABLE Act of 2025 (H.R. 2392, Stablecoin Transparency and Accountability for a Better Ledger Economy Act of 2025) passed by the Financial Services Committee last week, especially those backed by U.S. dollars or U.S. Treasuries that will empower real communities to access compliant, next generation financial products.

While legislation must be bipartisan and well informed, time is of the essence. Uncharacteristically, foreign jurisdictions are ahead of America in deploying regulatory frameworks to accommodate the rapid proliferation of digital assets.

In closing, with the right tools and the right policies, we can ensure that America doesn't just keep up, but leads the world in unlocking the value of real-world assets on-chain.

I thank you again for your time, and I look forward to your questions.

[The prepared statement of Mr. Tague follows:]

PREPARED STATEMENT OF MARK TAGUE, CO-FOUNDER AND CHIEF REVENUE OFFICER,  
CATTLEPROOF VERIFIED INC., CHEYENNE, WY

### **I. Executive Summary**

The traditional cattle transaction system, largely unchanged for the past 150 years, faces significant challenges today that hinder efficiency, transparency, and trust within the industry. Ranchers contend with a lack of comprehensive data regarding their livestock, leading to difficulties in verifying quality and origin. Slow payment processes can create cash flow issues and uncertainty for producers. Furthermore, the industry grapples with persistent problems such as fraud, impacting both buyers and sellers. These archaic processes contribute to inefficiencies and prevent ranchers from fully realizing the full value of their cattle. The absence of an easily accessible reliable record-keeping system impedes traceability and the ability to provide consumers with verifiable information about the beef they purchase.

Blockchain technology offers a transformative solution to the long-standing issues plaguing the cattle industry. At its core, blockchain is a secure, immutable, and distributed ledger that records transactions and data across a network of computers. This decentralized nature enhances transparency and makes it extremely difficult to tamper with recorded information. In the context of cattle transactions, blockchain enables the creation of unique digital identities for individual animals, allowing for the recording and tracking of crucial data points such as origin, health records, and ownership throughout their lifespan. This comprehensive data trail can follow the animal through the entire supply chain, from ranch to consumer, providing an unprecedented level of transparency and accountability. The ability to tokenize these digital animal identities and their associated data also paves the way for more efficient and secure online marketplaces for buying and selling cattle.

The adoption of blockchain technology presents numerous benefits for ranchers of all sizes. Enhanced transparency and verifiable data can enable ranchers participating in USDA Process Verified programs to receive premium prices for their certified cattle. Blockchain facilitates faster settlement of transactions, improving cash flow and reducing financial uncertainty. The digitization of animal records streamlines administrative processes, reducing paperwork and improving overall efficiency on the ranch. For smaller ranchers, blockchain can provide access to broader markets and potentially level the playing field by offering a secure and verifiable way to showcase the quality of their cattle, regardless of scale. The increased trust fostered by blockchain could also lead to stronger relationships with buyers and great-

er access to capital through more transparent and secure transaction histories. By addressing inefficiencies and providing a platform for verifiable quality, blockchain empowers ranchers to focus on their core business of raising cattle while capturing more of the value they create.

For the American beef-buying population, blockchain technology in the cattle industry translates to safer and more trustworthy food products. The enhanced traceability provided by blockchain allows consumers to gain insights into the origin and history of the beef they purchase, fostering greater confidence in its quality and safety. This transparency addresses the growing consumer demand for more information about their food sources and production practices. In the event of foodborne illness outbreaks, blockchain can facilitate faster and more precise recalls, minimizing harm to public health. The ability to verify claims related to animal welfare and sustainable farming practices through blockchain can also empower consumers to make more informed purchasing decisions that align with their values. Ultimately, blockchain contributes to a more reliable and accountable beef supply chain, ensuring that American consumers have access to high-quality, safe, and transparently sourced beef.

In sum, the integration of blockchain technology into the cattle industry holds significant and mutual advantages for both producers and consumers. By addressing the longstanding challenges of inefficient and opaque traditional transaction methods, blockchain offers a pathway towards a more transparent, efficient, and trustworthy beef supply chain. Ranchers, regardless of their size, stand to benefit from premium pricing, faster payments, reduced administrative burdens, and potentially broader market access. Simultaneously, the American beef-buying population will gain greater confidence in the safety and origin of their food through enhanced traceability and verifiable information. The adoption of blockchain represents a crucial step in modernizing the cattle industry, bridging the gap between innovative technology and the practical needs of ranching, ultimately fostering a more sustainable and resilient future for beef production and consumption in the United States and globally.

## **II. Introduction: The Current State of Cattle Transactions**

### *A. Historical Overview of Cattle Transactions and Their Lack of Significant Change*

For over 150 years, the way cattle have been bought and sold has remained fundamentally unchanged. This lack of significant evolution in cattle transactions stands in stark contrast to advancements seen across numerous other industries. The core processes involved in transferring ownership, providing assurances of quality and origin, and facilitating payment have largely persisted without the benefits of modern technology.

Some of the very issues that plagued cattle transactions a century and a half ago continue to be prevalent today. Fraud, for instance, remains a significant concern within the industry. The absence of readily available, reliable data and transparent processes creates opportunities for misrepresentation and disputes regarding the characteristics and history of individual animals.

Furthermore, traditional cattle transactions suffer from inefficiencies that hinder ranchers and other stakeholders in the supply chain. Slow payments are a common frustration, creating cash flow challenges for producers. The lack of verifiable data on individual animals, including their health records, breeding history, and other relevant information, limits the ability of buyers to make informed decisions and for sellers to capture the full value of their high-quality cattle.

While demand for cattle remains strong, ranchers are increasingly challenged by issues of efficiency. The antiquated nature of transaction processes contributes to these challenges, acting as a bottleneck that prevents the industry from fully capitalizing on its potential. The need for technological solutions to bridge this gap and bring cattle transactions into the 21st century has become increasingly apparent. The introduction of blockchain and peer-to-peer transaction platforms will address these long-standing problems by providing solutions for verification, secure data storage and sharing, and streamlined transactions, which were simply not available in the historical context of cattle commerce.

### *B. Problems with Current Cattle Transactions*

#### **1. Lack of Data and Traceability**

Current cattle transactions are hampered by a significant lack of readily available and reliable data. This absence of information makes it difficult to track individual animals and their history throughout the supply chain. Ranchers lack the tools to easily record and share crucial details about their cattle, such as health records and breeding history. This limits transparency and makes it challenging for buyers to

make informed decisions about the animals they are purchasing. The inability to trace an animal's history also impacts food safety and compliance efforts. Without a system for individual animal identification and data sharing, the industry operates with a significant information deficit, hindering efficiency and trust.

## 2. Rigid and Limited Distribution Channels

The traditional methods of buying and selling cattle often involve rigid and limited distribution channels that have not evolved significantly in over a century. The current environment lacks diverse and accessible avenues for ranchers to connect with potential buyers. The fact that technology is needed to "bridge the gap" indicates that the existing channels may not be efficient in reaching a wider range of buyers or in adapting to modern market demands. This limitation can prevent ranchers from accessing optimal prices and can slow down the overall movement of cattle through the supply chain.

## 3. Slow Payment Processes

Slow payment processes represent a persistent problem in traditional cattle transactions. This inefficiency creates cash flow challenges for ranchers and can impact their ability to reinvest in their operations. By bringing transactions onto a blockchain, the aim is to achieve faster settlement. The current reliance on outdated methods means that ranchers often have to wait for extended periods to receive payment after a sale, creating unnecessary financial strain. Modernizing these processes is crucial for improving the financial well-being of producers and streamlining the overall transaction cycle.

## 4. Lack of Reliable Proof of Ownership and History

A significant challenge in current cattle transactions is the lack of reliable proof of ownership and the difficulty in tracing an animal's history. Current methods of tracking ownership and history are inadequate and potentially unreliable. The blockchain's immutable and transparent nature offers a solution by providing a secure and verifiable record of an animal's journey and ownership changes throughout its life. Restoring trust in the provenance of cattle requires a more robust and tamper-proof system for documenting ownership and historical data.

## 5. Susceptibility to Fraud

The cattle transaction industry remains frustratingly susceptible to fraud. The lack of transparent data and verifiable records creates opportunities for fraudulent activities. Current, largely unchanged transaction methods lack the necessary safeguards to effectively prevent fraud. Implementing technologies that provide immutable records and verifiable information is crucial for mitigating the risk of misrepresentation and ensuring fair dealings within the cattle market.

## 6. Inefficiencies Impacting Rancher Profitability

Ranchers today are facing challenges not primarily due to a lack of demand, but because of inefficiencies in the transaction processes. These inefficiencies negatively impact their profitability and make it harder for them to "keep ranching". Antiquated transaction methods contribute to these inefficiencies, preventing ranchers from fully capturing the value of their cattle and adding unnecessary costs or delays to the process.

### *C. The Need for Modernization and Technological Solutions in the Cattle Industry*

The cattle industry stands at a critical juncture, facing the imperative of modernization to overcome long-standing inefficiencies and embrace the potential of technological solutions. For over a century and a half, the fundamental processes of cattle transactions have remained largely unchanged, creating a growing disconnect with the advancements seen in other sectors. This lack of evolution has left the industry grappling with problems that not only hinder productivity but also limit the profitability and sustainability of ranching operations. The time has come for technology to bridge this gap and bring cattle commerce into the 21st century.

## **III. CattleProof: A Blockchain Solution Purpose-Built for the Cattle Industry**

### *A. CattleProof's Mission To Digitize Cattle Transactions*

CattleProof's central mission is to digitize cattle transactions, bringing a centuries-old industry into the 21st century by leveraging cutting-edge technology to solve its fundamental problems. We are overhauling outdated processes that are hindering efficiency, transparency, and profitability within the cattle industry. Our core objective is to unlock value by addressing the critical shortcomings of the current system and empowering ranchers to thrive in a modern marketplace.

The foundation of CattleProof's mission lies in the digitization of agricultural assets through a blockchain-based platform. This involves creating individual animal IDs that are securely stored and shared on a blockchain. This unique identification forms the basis for recording and tracking comprehensive animal data throughout the supply chain. By moving away from traditional, often paper-based or fragmented recordkeeping, we eliminate the problem of "no data" that plagues the industry. This digital record-keeping enables traceability, allowing for a clear understanding of an animal's history, health, and origin.

Furthermore, CattleProof seeks to revolutionize the transactional aspect of the cattle industry. Our platform facilitates buying and selling animals directly on the blockchain, with the animal's data seamlessly following it through each transaction in the supply chain. This approach directly addresses the issue of slow payments by promising faster settlement through the efficiency of blockchain technology. By streamlining the payment process, CattleProof improves cash flow for ranchers and reduce the financial burdens associated with traditional transaction delays.

A key component of CattleProof's mission is to enhance trust and security within the industry. The current system suffers from a lack of reliable proof of ownership and history, contributing to the persistent problem of fraud. By utilizing a secure blockchain to store individual animal IDs and transaction records, CattleProof provides restored trust and a verifiable history for each animal. This immutability and transparency inherent in blockchain technology offer a significant advantage over traditional methods, creating a more secure and reliable environment for all stakeholders.

Ultimately, our mission is driven by an understanding that ranchers aren't struggling for demand—they're struggling with efficiency. Our platform is designed to bridge the gap between the cattle industry and modern technology, providing tools that enhance operational efficiency and future-proof compliance. In essence, CattleProof's mission is to empower ranchers to keep ranching by providing them with the technological solutions needed to operate more efficiently, securely, and profitably in the 21st century.

#### *B. Key Features of the CattleProof Platform*

##### *1. Verification: USDA Process Verified Program Service Provider*

A core feature of the CattleProof platform is its role as a USDA Process Verified Program Service Provider. We offer a trusted and recognized mechanism for verifying cattle, a process that can yield significant benefits for ranchers. Ranchers who utilize USDA Process Verified programs can receive up to a 150% premium on their cattle, highlighting the economic advantage of this verification. By offering this service, CattleProof directly addresses the industry's need for proof and enables ranchers to differentiate their high-quality livestock in the marketplace. This feature contributes to restored trust within cattle transactions by providing buyers with assurance regarding the origin and quality of the animals. CattleProof's verification service leverages established USDA standards, integrating them into a modern digital platform to enhance transparency and value for producers of certified cattle. This ensures that data regarding the cattle's adherence to specific USDA process-verified attributes is securely recorded and readily accessible to authorized parties throughout the supply chain.

##### *2. Blockchain Technology: Individual Animal IDs Creation, Secure Storage, and Sharing on a Blockchain*

The CattleProof platform is built upon blockchain technology, a foundational element that underpins its ability to digitize and track cattle. This technology enables the creation of individual animal IDs, which are securely stored on a distributed and immutable ledger. Each animal's unique ID serves as the anchor for a comprehensive record of its life and transactions. The blockchain's inherent security ensures the integrity and tamper-proof nature of this data, addressing the problem of no data and the risk of fraud prevalent in traditional systems. Furthermore, the blockchain facilitates the secure sharing of this animal data with relevant stakeholders across the supply chain. This enhanced data transparency and traceability are crucial for building trust, improving supply chain efficiency, and potentially future-proofing compliance requirements. By leveraging blockchain, CattleProof provides a robust and transparent infrastructure for managing and exchanging critical information about individual cattle.

##### *3. Tokenization: Digitizing Physical Assets and Providing 24/7/365 Transactability*

CattleProof embraces the concept of tokenization by digitizing physical assets—the cattle themselves—through the creation of individual animal IDs on the blockchain. This digital representation transforms cattle into assets that can be

transacted more efficiently. The use of blockchain technology paves the way for 24/7/365 transactability, moving beyond the limitations of traditional auction schedules and physical marketplaces. Ranchers gain the flexibility to buy and sell their cattle at any time, potentially expanding their market reach and accelerating transaction cycles. This continuous availability for transactions contributes to bringing cattle transactions into the 21st century, offering a significant improvement over the historically slow and restricted nature of cattle commerce. Tokenization on the blockchain allows for a more dynamic and accessible market where physical cattle are represented by secure digital records, enabling continuous trading opportunities.

#### 4. *Marketplace: Platform for Buying and Selling and Financing Cattle on the Blockchain*

CattleProof provides a dedicated marketplace built on the blockchain, specifically designed for buying and selling animals. This platform aims to create more marketplaces for ranchers, expanding their access to a wider network of potential buyers and sellers beyond geographical limitations. By digitizing the transaction process, CattleProof streamlines the exchange of ownership and facilitates faster settlement, addressing key inefficiencies in the traditional cattle market. This blockchain-based marketplace fosters a more transparent and efficient environment for cattle commerce, allowing ranchers to directly participate in a modern, digital ecosystem and potentially access new avenues for capital and market opportunities.

#### *C. Data Tracking Real-Time Throughout the Supply Chain*

Real-time data tracking throughout the supply chain is a crucial element in modernizing the cattle industry, and it forms a cornerstone of CattleProof's mission to digitize cattle transactions and unlock value. The current state of cattle transactions suffers from a significant lack of readily available and reliable data, hindering efficiency and contributing to problems like fraud and the inability to capture the full potential value of cattle. CattleProof's platform directly addresses this by implementing a system for individual animal IDs created and securely stored on a blockchain. This foundational step enables the continuous and real-time tracking of vital information as an animal moves through each stage of the supply chain, from ranch to consumer.

The creation of a unique digital identity for each animal allows for the recording of a comprehensive dataset, including origin, health records, vaccination history, feeding information, and ownership transfers. Because this data is immutably recorded on the blockchain, it provides an auditable and trustworthy history for each animal. This real-time tracking offers stakeholders an unprecedented level of visibility into the supply chain. Ranchers can monitor the health and well-being of their animals more effectively. Feedlots can optimize feeding practices based on the documented history. Processors can access critical information relevant to food safety and quality. And ultimately, consumers can have greater confidence in the provenance of the beef they purchase.

Furthermore, our role as a USDA Process Verified Program Service Provider enhances the value of this real-time data tracking. By integrating USDA verification processes into the platform, CattleProof ensures that data related to specific quality attributes is captured and linked to the animal's digital ID. This verifiable data can then be shared in real-time with buyers, allowing ranchers to demonstrate the value of their USDA Process Verified Cattle. The ability to access this verified information instantly streamlines transactions and builds trust between buyers and sellers.

The benefits of real-time data tracking extend beyond individual animal management and transactions. At a broader level, it enhances the overall efficiency of the cattle supply chain. Knowing the precise location and status of animals in real-time can optimize logistics, reduce transportation delays, and minimize waste. This improved efficiency directly addresses the fact that ranchers aren't struggling for demand—they're struggling with efficiency.

By providing the technological tools for real-time data management, CattleProof aims to bridge the gap and empower ranchers to operate more effectively and profitably. The transparency afforded by this system also contributes to a more secure marketplace, mitigating the risks associated with inaccurate or fraudulent information. CattleProof's commitment to real-time data tracking throughout the supply chain represents a significant step towards a more efficient, transparent, and trustworthy cattle industry.

#### *D. How CattleProof Aims To Bring Cattle Transactions Into the 21st Century*

CattleProof directly addresses the long-standing inefficiencies of the cattle transaction process. The platform aims to revolutionize this sector by bringing cattle transactions into the 21st century through the strategic integration of cutting-edge technologies and a focus on data, trust, and efficiency. Traditionally plagued by no

data, slow payments, and no proof, the cattle market is ripe for modernization, and CattleProof offers a comprehensive solution to these archaic problems.

At its core, CattleProof utilizes blockchain technology to create a secure and transparent environment for cattle transactions. This involves the creation of individual animal IDs that are stored on an immutable ledger, ensuring the integrity and traceability of each animal's history. This digital foundation moves the industry away from reliance on outdated paper-based records, providing a single source of truth for critical animal data. This lays the groundwork for greater trust and efficiency throughout the supply chain.

Furthermore, CattleProof acts as a USDA Process Verified Program Service Provider, integrating a trusted verification mechanism directly into the platform. By providing this verification service, CattleProof injects much-needed proof into the transaction process, fostering greater confidence among buyers and contributing to restored trust in the market.

The concept of tokenization is central to CattleProof's modernization efforts. By digitizing physical assets—the cattle—through their unique blockchain IDs, the platform enables 24/7/365 transactability. This eliminates the constraints of traditional auction schedules and physical marketplaces, offering ranchers greater flexibility and access to a wider pool of buyers. This continuous availability for transactions represents a significant leap forward from the historically slow and geographically limited nature of cattle commerce.

CattleProof aims to create more marketplaces for ranchers, expanding their reach and streamlining the transaction process. The use of blockchain technology facilitates faster settlement of payments, addressing another critical pain point in the traditional system. By addressing fundamental issues like lack of data, slow payments, and the risk of fraud, and by leveraging modern technologies like blockchain, verification services, tokenization, and a dedicated marketplace, CattleProof is poised to bring cattle transactions into the 21st century.

#### **IV. Benefits for Ranchers of All Sizes**

CattleProof offers a suite of benefits designed to modernize ranching operations and enhance profitability for producers of all sizes. By digitizing cattle transactions and unlocking value, the platform addresses critical pain points that have persisted in the industry for over a century. Ranchers stand to gain significantly through enhanced efficiency and reduced costs. The implementation of a blockchain-based system with individual animal IDs facilitates streamlined data management and record-keeping, moving away from cumbersome traditional methods. This digital approach has the potential for a reduced administrative burden associated with tracking animal history, health records, and ownership transfers, freeing up ranchers to focus on core ranching activities. Furthermore, the faster settlement of transactions facilitated by the blockchain marketplace can improve cash flow and reduce the financial uncertainties associated with traditional payment systems.

Increased trust and transparency are central to the CattleProof value proposition. By creating immutable and verifiable records on the blockchain, the platform contributes to restored trust within the cattle market. Buyers can have greater confidence in the provenance and quality of the cattle they are purchasing, leading to more secure and reliable transactions. CattleProof provides ranchers with access to premium markets and increased profitability. As a USDA Process Verified Program Service Provider, the platform enables ranchers to easily participate in value-added programs and receive up to 150% premium on USDA Process Verified Cattle. The easier verification for premium certifications through blockchain records streamlines the audit process and reduces the complexities associated with proving specific animal attributes. Additionally, the CattleProof marketplace provides access to more marketplaces beyond traditional auction houses, potentially widening the pool of buyers and creating more competitive pricing.

Finally, CattleProof facilitates improved data management and decision-making. The platform's focus on individual animal data tracking allows ranchers to compile comprehensive records on health, breeding, and other vital metrics. This detailed information has the potential for better insights into herd management and performance, enabling data-driven decisions that can optimize ranching practices and improve overall productivity. Moreover, the readily available and verifiable data on the blockchain contributes to future-proofed compliance by simplifying the process of meeting regulatory requirements related to animal health, traceability, and other industry standards.

CattleProof is designed to offer significant advantages to both small and large ranching operations, addressing the unique challenges and opportunities associated with different scales of production. Small ranchers can gain access to wider markets and potentially higher prices through verification and the marketplace. Tradition-

ally, smaller ranches might be limited by geographical constraints and access to a smaller pool of buyers. CattleProof's digital marketplace breaks down these barriers, allowing small producers to showcase their cattle to a national or even international audience. The ability to obtain USDA Process Verification and have those credentials immutably recorded on the blockchain provides small ranchers with a credible and cost-effective way to differentiate their cattle and tap into premium markets. This levels the playing field, allowing smaller operations to compete more effectively on quality and verified attributes, potentially leading to increased profitability and sustainability.

Furthermore, the streamlined data management offered by CattleProof can be particularly beneficial for small ranchers who may have limited administrative resources. The platform simplifies record-keeping, freeing up valuable time that can be better spent on animal husbandry and other core activities. The increased transparency and trust facilitated by the blockchain can also help small ranchers build stronger relationships with buyers, as their animal data is readily available and verifiable.

Large ranchers, on the other hand, can realize significant benefits from the increased efficiency, streamlined data management, and enhanced traceability at scale offered by CattleProof. Managing large herds involves complex logistical challenges and extensive data tracking. The platform's ability to assign individual digital IDs and track animal movements and health records in real-time provides a powerful tool for optimizing operations across a large number of animals. This can lead to reduced labor costs associated with manual record-keeping and improved decision-making regarding herd health, feeding strategies, and market timing.

The enhanced traceability provided by CattleProof is also crucial for large-scale operations in ensuring food safety and meeting consumer demands for transparency. The immutable record of each animal's journey through the supply chain provides a high level of accountability and facilitates quick response in the event of any issues. Moreover, large ranchers can leverage the USDA Process Verification capabilities at scale, efficiently documenting and verifying the attributes of a significant number of cattle to access premium markets and maximize returns. The platform's ability to integrate with existing ranch management systems (although not explicitly detailed, this would be a logical feature for scalability) would further enhance its value for large operations, making it a powerful tool for modernizing and optimizing large-scale cattle production.

## **V. Benefits for the American Beef-Buying Population**

### *A. Increased Food Safety*

CattleProof's implementation of blockchain technology enhances the traceability of cattle through the entire supply chain. The creation of individual animal IDs stored on a secure and immutable ledger allows for a comprehensive record of each animal's journey, from birth to processing. This enhanced traceability offers significant benefits for food safety. In the event of a foodborne illness outbreak, the ability to quickly and accurately trace the affected product back to its origin is crucial. CattleProof's system provides a robust mechanism for tracking animal health and origins, potentially reducing the risk and spread of foodborne illnesses. This detailed tracking can help identify the source of contamination more efficiently, allowing for quicker and more targeted recalls, thereby minimizing the impact on public health.

Furthermore, the platform's integration with USDA Process Verified Programs adds another layer of assurance for consumers. This verification process involves adherence to specific standards and practices, and CattleProof's blockchain provides a transparent and auditable record of this verification. This can increase consumer confidence in the safety of beef products, as they have greater certainty that the cattle were raised and handled according to verified protocols. The immutable nature of the blockchain ensures that these records cannot be tampered with, providing a higher level of trust compared to traditional, potentially less secure record-keeping methods.

By digitizing animal data, including health records, CattleProof can also contribute to proactive food safety measures. Ranchers and other stakeholders in the supply chain can have better access to information about animal health, potentially identifying and addressing health issues earlier, before they can impact the food supply. This proactive approach, facilitated by improved data management, can further bolster the safety of beef products for consumers. Ultimately, CattleProof's focus on traceability and verified data through blockchain technology aims to provide American consumers with safer and more trustworthy beef options, leading to increased confidence in the food they purchase.

### *B. Greater Transparency and Information*

CattleProof holds the potential to bring greater transparency and information to the often complex and opaque beef supply chain. The use of blockchain technology allows consumers to access information about the origin and history of the beef they purchase, going beyond basic labeling requirements. For example, consumers might one day be able to scan a QR code on a beef product to view verified claims about the animal's origin, how it was raised, and any relevant certifications.

Blockchain's immutability plays a crucial role in helping to expand and maintain heightened trust in the beef supply chain. The inability to alter records once they are on the blockchain provides a high degree of confidence in the accuracy and integrity of the information. This is particularly important in an industry where consumers may have concerns about the authenticity of claims and the potential for misinformation. By providing a tamper-proof record of key information, CattleProof can empower consumers to make more informed purchasing decisions based on verified data.

This increased transparency can also extend to practices related to animal welfare and sustainability, as verified claims related to these aspects can be securely recorded on the blockchain. Consumers who prioritize these values can then seek out and support beef products with verifiable proof of adherence to such practices. Our underlying technology could be adapted in the future to accommodate other types of verified claims, further enhancing transparency for consumers. By providing a more transparent and informative beef supply chain, CattleProof can empower American consumers and foster greater trust in the products they buy.

### *C. Support for Ranchers and Sustainable Practices*

By facilitating premium pricing for USDA Process Verified Cattle, CattleProof can create a market-driven incentive for ranchers to adopt sustainable and higher-quality practices. Ranchers who choose to participate in these verified programs and meet the required standards can earn up a premium for their cattle. This economic advantage encourages more ranchers to invest in practices that go above and beyond standard production methods, potentially leading to improvements in animal welfare, environmental stewardship, and the overall quality of beef.

American consumers can indirectly support ranchers who prioritize quality and verification by purchasing beef that originates from cattle tracked and verified through the CattleProof platform. As more ranchers adopt verified practices to access premium markets, the availability of beef produced under these standards is likely to increase, providing consumers with more options that align with their values. This creates a positive feedback loop where consumer demand for higher-quality and sustainably produced beef drives greater adoption of such practices within the ranching community.

While CattleProof's primary focus is on improving the efficiency and transparency of cattle transactions, its ability to facilitate value-added programs has a direct impact on supporting ranchers who are committed to quality and potentially sustainable practices. By enabling these ranchers to capture the economic benefits of their efforts, the platform contributes to a more resilient and potentially more sustainable beef industry. Consumers who value these attributes in their food choices can feel confident that by supporting beef from verified sources, they are also supporting the ranchers who are investing in these practices. Ultimately, CattleProof's mechanism for premium pricing based on verification can help align consumer preferences with ranching practices that prioritize quality and sustainability.

## **VI. Blockchain as a Key Technology Solution in Agriculture**

### *A. Existing Barriers for Ranchers*

The adoption of new technologies, including blockchain, in the agricultural sector, particularly for ranchers, faces several existing barriers. The challenges faced by rural communities in accessing resources and technical assistance are well known. These challenges directly translate to potential hurdles in technology adoption for ranchers. The lack of human and financial capacity in many rural areas can impede the understanding, implementation, and maintenance of complex systems like blockchain. Furthermore, the digital divide in rural America, where internet access and digital literacy may be limited, presents a significant obstacle to the widespread use of blockchain-based platforms. Without reliable connectivity and the necessary skills, ranchers may find it difficult to engage with and benefit from such technologies.

The cost of implementing and maintaining blockchain solutions can also be a significant barrier for ranchers, especially smaller operations. The initial investment in hardware, software, and training to participate in new technology may be prohibitive for some. Simply applying existing regulations to new technologies can be inad-

equate and inappropriate. Current financial support mechanisms or regulatory frameworks may not adequately address the specific costs associated with blockchain adoption in agriculture. Overcoming these barriers often requires targeted support, including financial assistance, technical training tailored to the agricultural context, and infrastructure development to improve rural connectivity.

#### *B. Data Privacy and Security Concerns on the Blockchain*

While blockchain is often lauded for its security features, data privacy and security concerns within the agricultural context warrant careful consideration. The immutable nature of blockchain, a key feature for traceability and trust, also means that once data is recorded, it cannot be easily altered or removed. This raises questions about the types of data being stored on agricultural blockchains and who has access to it. For instance, individual animal IDs and their associated data could contain sensitive information about a rancher's operations, animal health, and business practices. Concerns may arise regarding the potential for unauthorized access or misuse of this data, even if the blockchain itself is secure against tampering.

Blockchain has great potential to provide secure and transparent data management. In the agricultural sector, ranchers need assurance that their data is protected and that they have control over who can view and utilize it. This necessitates careful design of blockchain-based systems with robust access controls and potentially privacy-enhancing techniques. In agricultural blockchain, clarity is needed regarding data ownership, privacy regulations, and the responsibilities of different stakeholders in managing data on the ledger. Addressing these concerns through transparent data governance frameworks and the implementation of appropriate security measures is crucial for fostering trust and encouraging adoption of blockchain in agriculture.

#### *C. Interoperability with Existing Ranching and Supply Chain Systems*

For blockchain to be effectively integrated into the agricultural sector, it must be interoperable with the diverse array of existing ranching and supply chain systems. Ranchers and other stakeholders currently utilize various software, databases, and record-keeping methods. The ability of a new blockchain-based platform to seamlessly interact and exchange data with these legacy systems is critical for minimizing disruption and maximizing efficiency. Without interoperability, ranchers may face the burden of maintaining parallel systems or manually transferring data, which can negate the benefits of blockchain technology.

Web3 aims for decentralized networks offering increased security, privacy, and transparency. In this context, interoperability becomes even more crucial to avoid the creation of new data silos within the decentralized landscape. As this Subcommittee explores the regulatory gaps in digital assets, you should also consider the technical requirements for interoperability in agricultural applications of blockchain to ensure that these solutions can integrate smoothly into existing workflows and infrastructure.

#### *D. Scalability of the Blockchain Solution*

The scalability of blockchain solutions is a critical factor for their successful implementation across the vast and varied agricultural sector. Agriculture involves a massive volume of transactions and data points, from individual animal tracking to supply chain logistics. A blockchain platform intended for widespread use must be capable of handling this scale efficiently without compromising speed, cost-effectiveness, or security.

The technical infrastructure required for handling large volumes of transactions in the agricultural sector is necessarily substantial. The chosen consensus mechanism, network architecture, and data storage solutions will significantly impact the scalability of the blockchain. Ensuring that agricultural blockchain platforms can accommodate the demands of the industry, including peak seasons and the increasing use of IoT devices for data collection, is essential for their long-term viability and impact.

#### *E. Regulatory Landscape for Blockchain in Agriculture*

The regulatory landscape for blockchain in agriculture is currently evolving and often mirrors the broader uncertainty surrounding digital assets. There is still a significant debate regarding the classification of digital assets as securities or commodities, and a lack of comprehensive Federal regulation for the spot market. This regulatory ambiguity extends to the application of blockchain technology in agriculture, particularly when involving digital tokens or cryptocurrencies related to agricultural products or processes.

For agricultural blockchain platforms that facilitate the trading of digital representations of agricultural commodities or involve financial transactions, clarity on

whether these activities fall under the jurisdiction of the CFTC or the SEC is crucial. As Congress considers legislation in this area, understanding the specific needs and potential of blockchain in agriculture is essential to create a regulatory environment that fosters innovation while ensuring consumer protection and market integrity.

## **VII. Conclusion: The Future of Cattle Transactions with Blockchain**

### *A. Benefits for Ranchers and the American Beef-Buying Population*

The integration of blockchain technology into cattle transactions holds significant promise for both ranchers and the American beef-buying population. For ranchers, blockchain offers the potential to address long-standing inefficiencies in the industry. The current system is characterized by a lack of data, slow payments, and insufficient proof of origin and quality, issues that have persisted for 150 years. Blockchain aims to rectify these problems by providing individual animal IDs stored on a secure, shareable ledger, enabling verification and traceability throughout the supply chain. This enhanced transparency can lead to restored trust among stakeholders. Economic incentives, coupled with faster settlement of transactions facilitated by blockchain, directly benefit ranchers' bottom lines and efficiency. Improving access to capital and fostering rural economic development is crucial. Blockchain can contribute to this by creating more transparent and potentially more accessible marketplaces for cattle transactions.

For the American beef-buying population, blockchain offers the prospect of safer food through enhanced traceability. The ability to track an animal's history and data from birth to processing can provide consumers with greater confidence in the origin and quality of the beef they purchase. This aligns with the growing consumer demand for transparency and information about their food sources. The digitizing of physical assets ultimately aims to bring cattle transactions into the 21st century, benefiting all participants in the supply chain, from the rancher to the consumer. By addressing issues like fraud and enabling future-proofed compliance, blockchain contributes to a more reliable and trustworthy beef market, ultimately serving the interests and well-being of the American public.

### *B. The Transformative Potential of Blockchain Technology in the Cattle Industry*

Blockchain technology possesses transformative potential for the cattle industry by revolutionizing how transactions are conducted, data is managed, and value is unlocked. The traditional cattle transaction process suffers from inefficiencies and a lack of transparency. Blockchain offers a paradigm shift by providing a secure, immutable, and distributed ledger for recording critical information about individual animals. This includes not only their origin and ownership but also health records, feeding practices, and other relevant data points that can follow them through the supply chain. This individualized data tracking contrasts sharply with the current aggregated and often opaque systems.

The ability to tokenize individual animals and their associated data, as envisioned by CattleProof, opens up new possibilities for creating more efficient and transparent marketplaces. Buying and selling cattle on a blockchain platform can streamline the process, potentially reducing transaction times and costs. Moreover, the enhanced traceability enabled by blockchain can improve supply chain management, reduce the risk of disease outbreaks, and provide consumers with verifiable information about the beef they are purchasing. Blockchain technology offers increased security, privacy, and transparency, solving many issues of the Web 2.0 era. Applying these principles to the cattle industry can foster greater trust and efficiency across the entire value chain, ultimately leading to a more resilient and sustainable beef production system. The transformative potential lies in its ability to digitize a traditionally physical asset and unlock its inherent data value.

### *C. CattleProof's Role in Bridging the Gap Between Innovative Technology and Ranching Efficiency*

CattleProof is positioned to play a crucial role in bridging the gap between innovative blockchain technology and the need for enhanced efficiency in the ranching sector. Our core offering centers around digitizing cattle transactions and leveraging blockchain to unlock value for ranchers. By providing a USDA Process Verified Program Service Provider for verification, CattleProof directly addresses the opportunity for ranchers to earn premium prices for their certified cattle. The creation of individual animal IDs on a secure blockchain is fundamental to their approach, enabling the collection, storage, and sharing of vital animal data. This data can then follow the animal throughout the supply chain, providing transparency and traceability.

CattleProof's focus on verification, blockchain integration, and facilitating transactions on the blockchain directly tackles the problems of no data, slow payments, and a lack of proof that plague the traditional system. Our business model, centered on digitizing physical assets, aligns with the broader trend of bringing traditional industries into the digital age. By offering a platform that caters specifically to the needs of ranchers, CattleProof can help overcome the barriers to technology adoption discussed earlier, such as the lack of technical expertise and the perceived cost of implementation. Ultimately, we empower ranchers to keep ranching by providing them with tools to improve their efficiency, access new markets, and capture greater value for their product.

*D. The Importance of Supporting Innovation in Agriculture in the U.S. and Globally*

Supporting innovation in agriculture, including the adoption of technologies like blockchain, is of paramount importance for the U.S. and global food security and economic prosperity. Ranchers are struggling with efficiency, not demand. Technology offers a crucial pathway to bridge this gap and ensure the sustainability of agricultural production. Supporting agricultural innovation, such as blockchain-based solutions, aligns with this goal by potentially creating new economic opportunities for ranchers and rural communities.

Furthermore, other jurisdictions are actively creating regulatory certainty for digital assets and blockchain technology. The U.S. risks falling behind if it does not foster an environment that encourages and supports innovation in this space. The transformative potential of blockchain extends beyond cattle transactions to areas like supply chain traceability and sustainability. Supporting its adoption in agriculture can lead to more efficient resource management, reduced waste, and a more transparent and resilient food system. Without a sound regulatory framework tailored to the technology, the U.S. may not see the full benefits and could lose its leadership position in blockchain development. Therefore, proactive support for agricultural innovation, including blockchain, is essential to maintain the competitiveness of the U.S. agricultural sector and contribute to global food system resilience.

*E. The Long-Term Impact of Blockchain on the Future of Beef Production and Consumption*

In the long-term, blockchain technology has the potential to fundamentally reshape the future of beef production and consumption. By providing a secure and transparent record of each animal's life and journey through the supply chain, blockchain can foster greater trust and accountability among all stakeholders, from ranchers to consumers. This enhanced transparency can lead to a more efficient and responsive supply chain, potentially reducing costs and improving the quality and safety of beef products. The ability for consumers to access detailed information about the origin and characteristics of their beef could also lead to more informed purchasing decisions and a closer connection between producers and consumers.

CattleProof's efforts to digitize cattle and leverage blockchain represent a significant step in this direction. As the technology matures and adoption broadens, we can envision a future where premium U.S. beef, verified through blockchain, becomes the global standard, rewarding American ranchers for sustainable and high-quality practices. The interoperability of blockchain platforms with other agricultural supply chain systems will be crucial for realizing the full potential of this technology. While regulatory clarity for blockchain and digital assets is essential for fostering innovation and ensuring consumer protection, the long-term impact on the beef industry promises a more transparent, efficient, and trustworthy ecosystem that benefits both producers and consumers.

Ultimately, blockchain can contribute to a more sustainable and resilient future for beef production and consumption in the U.S. and globally.

The CHAIRMAN. Mr. Horton, you are up. Let's go.

**STATEMENT OF MIKE A. HORTON, PROJECT CREATOR,  
GEODNET FOUNDATION, LOS ALTOS HILLS, CA**

Mr. HORTON. All right. Good afternoon, Chairman Johnson, Ranking Member Davis, and Members of the Subcommittee. It is a pleasure to be here to tell you a bit about the GEODNET Foundation, and the great technology the GEODNET community has developed to help American farmers.

By way of background, I am from Austin, Texas, and I received a Bachelor's and Master's in electrical engineering from UC Berke-

ley in 1996. Prior to initiating the GEODNET project, I co-founded two successful startups in the field of navigation.

Today, precision agriculture is a well-proven technology that provides substantial economic benefit to the American farmer through efficient crop applications, which is also good for the environment. Precision agriculture depends on precision GPS, and I am going to describe how blockchain has enabled GEODNET to improve their reliability and reduce the cost of precision GPS for the American farmer.

The global positioning system, or GPS, is known by most people as the way to find directions when driving. Typical GPS accuracy is measured in feet, not inches. Standard GPS is useful for finding a grocery store, but it is not capable of identifying where a specific plant is planted, or to help steer a tractor without running over the plants themselves. To enhance GPS accuracy, precise positioning, or precision GPS techniques, are able to improve GPS location accuracy from several feet to sub-inch accuracy. The most precise method of precise positioning is RTK, or real-time kinematics. Precise positioning techniques like RTK require either a direct or indirect connection to one or more GPS reference stations. This is what a GPS reference station looks like. For this technology to work at scale and across the country, a network of these GPS antenna is necessary.

As I attempted to launch GEODNET, it quickly became apparent that it would cost billions of dollars to place antenna around the country; capital that we did not have. Through my research, I discovered that blockchain can solve this problem. Utilizing blockchain technologies, the GEODNET network has grown quickly, and it is now the largest precise positioning RTK network in the world, with more than 15,000 registered stations. In any given week, more than 10,000 professionals use the network, accessing 6 to 7,000 GEODNET stations daily.

This type of application of blockchain now has a name. It is called DePIN, or Decentralized Physical Infrastructure Networks. GEODNET is one of the leading DePIN networks, but there are many, many more DePIN networks being built globally, including DePIN networks for broadband internet, mobile internet, decentralized energy, and more. GEODNET is extremely useful because it offers reliable, high-accuracy positioning needed to conduct precision agricultural farm practices, as well as the precision required by many robotics and drone systems.

In agriculture, GEODNET is beloved for its low cost, accessibility to small and big farm operators alike, and its compatibility with both new and old equipment. The USDA's Dale Bumpers Small Farm Research Center has been an active GEODNET node operator for over a year, and USDA research staff has validated quality and accuracy on both new and old machines. To the end farmer who requires the precise position signal, GEODNET subscriptions offer savings from 33 percent to 90 percent per annum, compared to centralized corporate competitors. And the southern states where small farms are diverse in size and scope, GEODNET provides small farmers an ROI to use precision ag, while higher-cost centralized solutions are out of reach or simply don't provide RTK coverage in the area. In the Midwest, GEODNET's unprecedented

station density in places like Sioux Falls, South Dakota, provides the best immunity to solar weather, which in 2024 knocked more expensive services offline during the critical planting season, causing significant economic damage. On the West Coast, fully robotic farm practices are becoming popular, and GEODNET is the solution of choice for two of the leading autonomous farm equipment companies. The GEOD blockchain token is the key mechanism which allows the network to operate and grow successfully, without capital investment required from a centralized entity, corporate or government. For this innovative digital infrastructure to function, GEODNET depends on reliable blockchain networks.

Because of blockchain technology and networks, GEODNET has been able to grow quickly. GEODNET encourages the Subcommittee to consider ways to enhance clarity on digital asset regulation so that high utility applications of blockchain can thrive in the United States.

Thank you, and I look forward to answering your questions.  
[The prepared statement of Mr. Horton follows:]

PREPARED STATEMENT OF MIKE A. HORTON, PROJECT CREATOR, GEODNET  
FOUNDATION, LOS ALTOS HILLS, CA

Good afternoon, Chairman Johnson, Ranking Member Davis, and Members of the Subcommittee. It is a pleasure to be here to tell you a bit about the GEODNET Foundation and the great technology the GEODNET community has developed to help American farmers. By way of background, I am from Austin, TX and I received a Bachelors and Masters in Electrical Engineering from UC Berkeley. Prior to initiating the GEODNET project, I co-founded two successful startups in the field of navigation. I am a co-author on over 20 U.S. patents related to navigation technology.

My first company, Crossbow Technology, started after leaving UC Berkeley, was a pioneer in the field of sensors, and the first to receive FAA approval for a new gyroscope sensor technology that improved the safety of civilian aircraft. I sold this business to Moog Aerospace in 2011. In 2018 I co-founded a new sensor company, Anello Photonics, which is a pioneer in the use of Silicon Photonics for navigation.

The Global Positioning System or GPS is known by most people as the way to find directions when driving today. GPS works using satellites.

Typical standard GPS accuracy is measured in feet not inches. Standard GPS is useful for finding a grocery store on a street full of shops, but GPS is not, by itself, capable of identifying where a specific plant is planted or help steer a tractor without running over the plants themselves. *Image 1* shows how monitoring individual plant seedlings requires inch level absolute accuracy.

**Image 1: 1" Accuracy to Locate Individual Plant Seedlings**

To enhance GPS accuracy, Precise Positioning techniques are able to improve GPS location accuracy from several feet to sub-inch accuracy. With Precise Positioning, you can locate an individual plant in a field, you can accurately measure the width of a door frame on a construction site, and you can navigate a robot through a dense field reliably. Precise positioning techniques require either a direct or indirect connection to one or more nearby GPS reference stations. A GPS reference station is a fixed GPS antennae mounted on a roof and connected to the internet. *Image 2* illustrates what a GPS antennae installation looks like. For this technology to work at scale and across the country, a network of these GPS antennae is necessary. As I attempted to launch GEODNET it quickly became apparent that it would cost billions of dollars to place antennae around the country, capital that we did not have.

**Image 2: Typical GEODNET Antennae Installation**

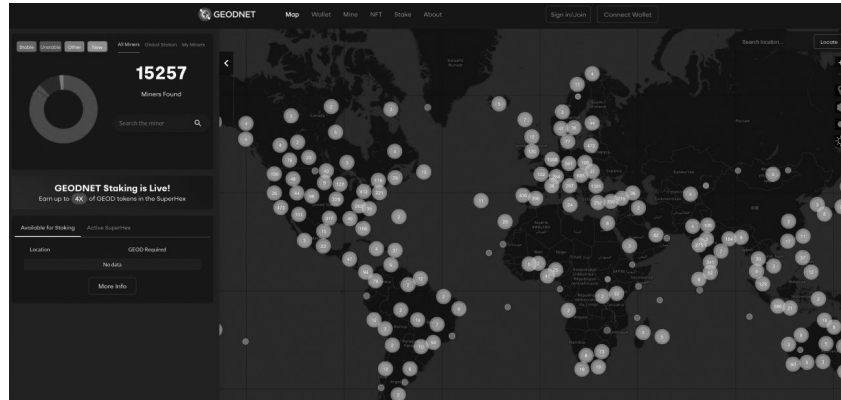
Without going into great detail given limited time today, through my research I discovered that blockchain can solve this problem. I initially presented this idea of using blockchain as a foundational technology to build a large global network of these reference stations at the Institute of Navigation's—Global Navigation Satellite Systems Plus Conference in Saint Louis 2021.<sup>1</sup> The presentation, authored by me and several industry colleagues, was awarded Best Presentation at the Conference, and the GEODNET whitepaper was subsequently published as a peer reviewed article in the *Journal of Navigation*.<sup>2</sup>

<sup>1</sup>Early Concept Presentation at ION GNSS+ 2021, St Louis <https://www.ion.org/publications/abstract.cfm?articleID=17882>.

<sup>2</sup>Peer-reviewed GEODNET White Paper, published in *Journal of Navigation* <https://navi.ion.org/content/70/4/navi.605>.

Utilizing Blockchain technologies, the GEODNET network has grown quickly and is now the largest precise positioning network in the world with more than 15,000 registered stations [Image 3]. In any given week, more than 10,000 professionals use the network accessing 6000 to 7000 GEODNET stations daily.<sup>3</sup> GEODNET's expansive coverage includes all major cities in the United States and Europe, as well as ever-expanding coverage in rural areas.

**Image 3: The GEODNET Station Network as of Friday April 4, 2025**

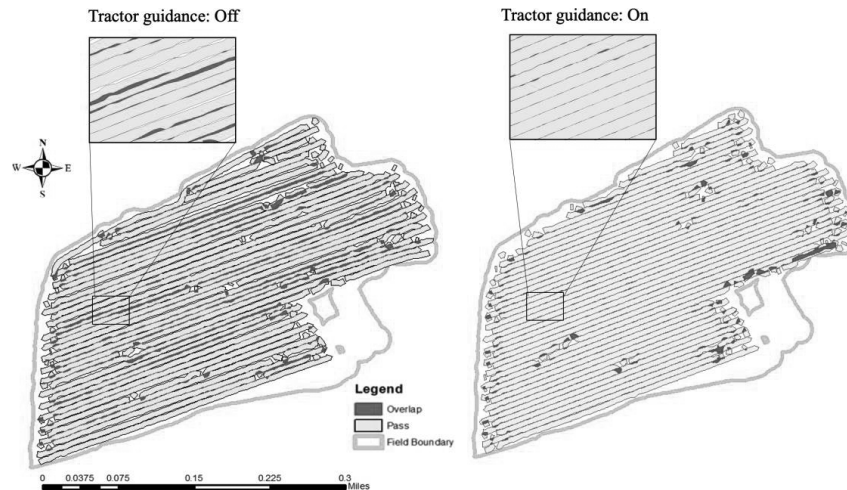


GEODNET is extremely useful because it offers the reliable high-accuracy positioning needed to conduct precision agriculture farm practices as well as the precision required by many robotics and drone systems.

In agriculture, GEODNET is beloved for its low-cost, accessibility to small and big farm operators alike, and its compatibility with both new and old equipment.

The USDA's Dale Bumpers Small Farm Research center has been an active GEODNET node operator for over a year, and research staff has validated quality and accuracy on both new and old machines. The USDA has also conducted numerous studies on the benefits of Precision Agriculture. As an example, Image 4 shows a USDA study demonstrating the efficiency benefits of automated tractor guidance utilizing precise positioning.

**Image 4: USDA Study on Efficiency Gains from Accurate Tractor Guidance**



20–30% efficiency using tractor guidance.

<sup>3</sup>GEODNET Station Map <https://console.geodnet.com/map>.

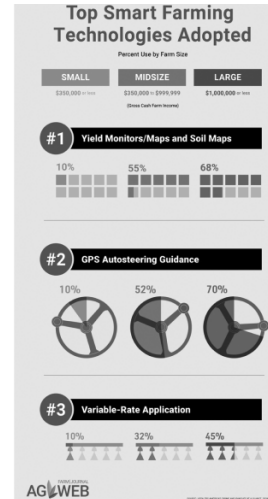
To the end-farmer who requires the precise position signal, GEODNET subscriptions offer savings from 33% to 90% per annum as compared to centralized corporate competitors. Lower-cost allows more farmers to utilize precision agriculture practices resulting in reduced input costs, higher-yields, and reduced environmental waste. The relative adoption of precision agriculture practices is shown in *Image 5* in a slide generated by the USDA.

**Image 5: Relative Adoption of Precision Ag by Farm Type and Application**

## Small Farm Precision Agriculture Overview

- According to NASS, Over 88% of the farms in the USA are categorized as small farms
- Technology adoption rates are low because there is little work focused on small farms
- The 5% rule (Danny Klinefelter, former Professor at Texas A&M):

“A 5% increase in price received, a 5% decrease in costs, and a 5% increase in yield will often produce more than a 100% increase in net returns. The effect is cumulative, multiplicative and compounding.”



In the southern states, where farms are diverse in size and scope, GEODNET provides small farmers with a return on investment (ROI) to use precision agriculture while higher-cost centralized solutions are out of reach, and creates significant savings for larger operations that are currently required to pay exorbitant per-unit subscription fees.

In the Midwest, GEODNET’s unprecedented station density in places like Sioux Falls South Dakota, provides the best immunity to Solar Weather which in 2024 knocked more expensive precise positioning services offline during the critical planting season causing significant economic damage.<sup>4</sup>

On the West Coast, fully robotic farm practices are becoming popular and GEODNET is the solution of choice for two of the leading autonomous farming equipment companies.

The GEOD blockchain token is the key mechanism which allows the network to operate and grow successfully without capital infrastructure investment required from a centralized entity—corporate or government.

Customer usage of GEODNET precise positioning services requires the consumption or so called “burning” of GEOD tokens. On the other side, those GEODNET users who chose to purchase and operate a GEODNET compatible reference station, receive GEOD tokens in exchange for providing a high-quality location and stable internet for the station. This process is called token “emission” or “minting.” Blockchain transactions emitting and burning these GEOD tokens permit both autonomous and decentralized network operation.\*

For this innovative digital infrastructure to function, GEODNET requires reliable blockchain technology. GEODNET itself does **not** run a blockchain, but it is an active user of blockchain networks. The GEOD Token is live on Solana and IoTeX Layer 1 chains, and the Polygon Layer 2 chain. The Smart Contract addresses are found below.

GEODNET has leveraged many technologies from the blockchain ecosystem including the creation of its native GEOD utility tokens used to consume GEODNET

<sup>4</sup> Article on 2024 Solar Storm Impact to Farmers <https://www.farmprogress.com/planting/this-spring-s-solar-storm-could-cost-american-farms-500-million>.

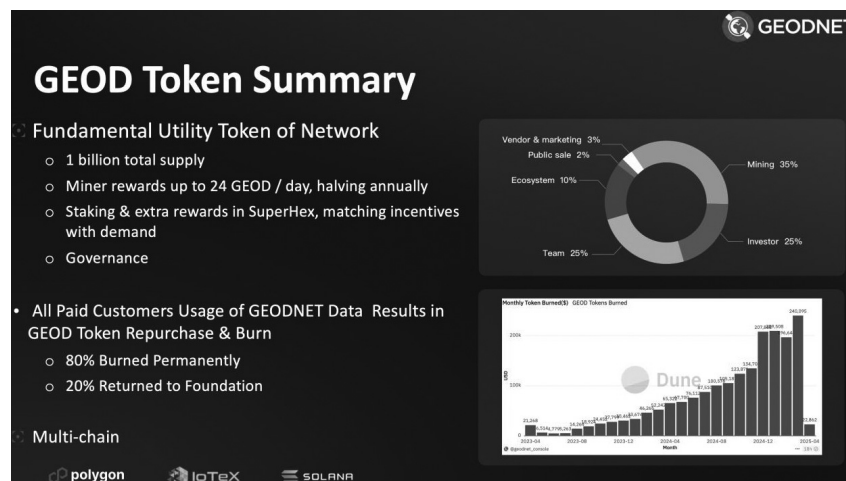
\* **Editor’s note:** there is no footnote reference “5” in the submitted statement. However, this paragraph appears to meet the criteria of footnote 5. Therefore, footnote 5 follows:

<sup>5</sup> GEODNET Dune Dashboard which tracks on-chain network activity including usage revenue [https://dune.com/geodnet\\_console/geod-console](https://dune.com/geodnet_console/geod-console).

precise location services, specialized GEODNET location Non-Fungible Tokens used to facilitate a geographically well-structured and efficient network,<sup>6</sup> as well as Decentralized Governance,<sup>7</sup> Decentralized Finance,<sup>8</sup> and Staking.<sup>9</sup>

Image 6 provides an overall summary of the GEOD utility token.

**Image 6: GEOD Utility Token Summary**



Because of blockchain technology, GEODNET has been able to grow quickly and scale the reach of the network across the country, including in typically underserved rural communities. This success is attributable to the fact that we were able to incentivize unrelated third parties to build out the network using the GEOD token, a digital asset. While we have been successful, it is imperative that future innovators have absolute clarity around how digital assets are to be regulated. A lack of clarity stifles innovation and discourages investment in the US. We commend this Committee's pioneering work in promoting legislation like FIT21 which seeks to provide clarity for companies like mine hoping to build innovative projects utilizing blockchain technology. Absent regulatory clarity that legislation will provide, it will be difficult for America to lead in this space. GEODNET encourages the committee to continue its work to enhance clarity on digital asset regulation so that high-utility applications of blockchain can thrive in the United States. Thank you.

#### GEOD Smart Contract Addresses

Solana: <https://explorer.solana.com/address/7JA5eZdCzstSfQbJvS8aVVxMFfd81Rs9VvwnocV1mKHu>.

Polygon: <https://polygonscan.com/address/0xac0f66379a6d7801d7726d5a943356a172549adb>.

IoTeX: <https://iotexscan.io/token/0x8e33229206f726993e4a7bf7da2347f3743bf8b4>.

Mr. DAVIS. Thank you. Dr. Brummer.

<sup>6</sup> GEODNET Location NFT awarded to first station to establish reliable coverage in a new region <https://opensea.io/collection/geodnet-location-nft>.

<sup>7</sup> GEODNET Governance Website <https://vote.geodnet.com/>.

<sup>8</sup> Example DeFi Swap Link for GEOD to USDC <https://raydium.io/swap/?inputMint=EPjFWdd5AufqSSqeM2qN1xzybapC8G4wEGGkZwyTDt1v&outputMint=7JA5eZdCzstSfQbJvS8aVVxMFfd81Rs9VvwnocV1mKHu>.

<sup>9</sup> GEODNET Staking portal utilized to create incentivized regions requiring additional GEODNET station coverage in a decentralized way <https://console.geodnet.com/stake>.

**STATEMENT OF CHRIS BRUMMER, PH.D., J.D., CHIEF EXECUTIVE OFFICER, BLUPRYNT; AGNES WILLIAMS SESQUICENTENNIAL PROFESSOR OF FINANCIAL TECHNOLOGY, GEORGETOWN UNIVERSITY LAW CENTER; FACULTY DIRECTOR, INSTITUTE OF INTERNATIONAL ECONOMIC LAW, WASHINGTON, D.C.**

Dr. BRUMMER. Chairman Johnson, Ranking Member Davis, and Members of the Committee, I have always loved this Committee, not just because I am from the great State of Arkansas, and was pleased to hear about the—there, but because of the bipartisan nature of this Committee. It is a real pleasure.

I am a Professor over at Georgetown where I teach courses on financial regulation, crypto assets and the law, securities law, and international financial regulation, among other subjects. I am also a founder of—and CEO of—Bluprynt, a startup that leverages AI and blockchain technology to reinvent and enable regulatory market and consumer disclosures, and communications for companies and governments around the world.

As both an academic and as an entrepreneur, I have come to appreciate that building a novel business, especially one rooted in emerging technologies, requires more than innovation for innovation's sake. It demands a merger of manufacturing and disclosure. Entrepreneurs today must not only develop compelling products and services, but also must communicate clearly and accessibly about the complex infrastructures powering them. In essence, creation and explanation now go hand in hand.

Now, Bluprynt was born of this idea that making things and disclosing things need not be separate endeavors. They are two sides of the same coin. And today, a little more than a year later, Bluprynt is on track to count as customers issuers, central banks, and blockchain builders, again, from around the world.

When I started my career as a securities law professor, the logic of disclosure was built on and premised on the prevailing regulatory technology of the time; pieces of paper, and the U.S. mailing system. Fast forward, and new channels have arisen for communications; hyperlinks to Webpages and even social media tweets have been recognized as a means through which builders can fulfil and create regulatory expectations. But when it comes to the latter, perhaps no other technology is more interesting and creates more potential than blockchains. They are programmable, immutable, and transparent. The perfect compliance technology.

Startups, of course, have to be snipers, even when they see big objectives and opportunities, and identify friction points and build from there. So for Bluprynt, our first product, thinking through disclosures and compliance, and it will be the one that I will focus on today, was Europe, and focusing on Europe's new regulations, MiCA, which took a step forward of doing that which the SEC at that point could not, which was tailoring a disclosure regime for crypto assets based upon the production of something that they call white papers, sort of like S1s, of a sense, for issuers of crypto assets.

But there were still plenty of questions even within MiCA. The legislation was filled with undefined terms left open to interpretation, such as the basics, *conflict of interest*, what exactly are certain

kinds of *digital asset features*, and compliance really wasn't cheap. Hiring lawyers to draft a white paper even in the EU can cost tens of thousands of Euros, and can take weeks to complete.

So my team of lawyers and engineers, and lawyer engineers, yes, they exist, created a solution enabling companies to effectively turbotax white papers based on a range of consumer data and inputs. Part of the process involves collaborating with L1s, L2s, in this particular instance the European community, national central banks, and more, and navigating Europe's first MiCA pilot here from the United States. And we worked on bespoke legal wrappers for new data sources and providers. But we didn't stop there. Recognizing the programmable nature of blockchains, we also built tools for developers enabling them to embed regulatory metadata on-chain. And we started with various L1s, first starting with MiCA-related metadata, and now we have started to do the same here in the United States.

Now, Bluprynt's first-use cases were born in financial services, but we are thinking big about the digital economy as a disclosure economy, whatever its guise. So we are not just building a business, but we are building systems applicable beyond financial markets.

So here, for the cases of today, we have seen interesting questions about cattle, but what happens, of course, when you are thinking about cattle that aren't just tagged, but are also bought and sold. And here for Bluprynt, we think about infrastructure to put in place to make that happen. When farmers and ranchers want to hedge against different kinds of fluctuations, how can you do that—embed that process—on-chain. Similarly, Bluprynt thinks about companies like GEODNET, explain and publish who is validating the data, and how can entrepreneurs build efficiently on that data.

Effectively, building high-quality digital infrastructure isn't easy. We do need your help. We need clear rules of the road so that people can know how to build compliance technologies, and the rulebook itself needs updating. As I have said before, even if technology moves and the rules remain the same, something can go wrong, especially if weaknesses arise, creating risk or creating challenges for innovators who can't build, or both.

I look forward to having a further conversation with all of you today, and thank you for the invitation.

[The prepared statement of Dr. Brummer follows:]

PREPARED STATEMENT OF CHRIS BRUMMER, PH.D., J.D., CHIEF EXECUTIVE OFFICER, BLUPRYNT; AGNES WILLIAMS SESQUICENTENNIAL PROFESSOR OF FINANCIAL TECHNOLOGY, GEORGETOWN UNIVERSITY LAW CENTER; FACULTY DIRECTOR, INSTITUTE OF INTERNATIONAL ECONOMIC LAW, WASHINGTON, D.C.

**A Bluprynt for Upgrading On- and Off-Chain Transparency**

Chairman Johnson, Ranking Member Davis, and Members of the Committee:

Thank you for inviting me to testify at this hearing. My name is Chris Brummer. I am the Agnes Williams Sesquicentennial Professor of Financial Technology at Georgetown University Law Center, where I teach courses on financial regulation, cryptoassets and the law, and international financial regulation, among other subjects. I am also the founder and CEO of Bluprynt, a startup that leverages AI and blockchain technology to reinvent and enable regulatory, market, and consumer disclosures and communications for companies around the world.

As both an academic and entrepreneur, I've come to appreciate that building a novel business—especially one rooted in emerging technologies—requires more than innovation for innovation's sake. It demands a merger of manufacturing and disclosure. Entrepreneurs today must not only develop compelling products and services, but also communicate clearly and accessibly about the complex infrastructures powering them. In essence, creation and explanation now go hand in hand.

Bluprynt was born of this idea—that making things and disclosing things need not be separate endeavors; they are two sides of the same (digital) coin. While novel in application, it's a timeless proposition that has, we believe, come of age. And today, a little more than a year after founding the company, Bluprynt is on track to count as customers issuers, central banks, and blockchain builders from around the world.

### Why Regulators (and Consumers and Investors) Should Love Blockchains

Our company is founded on the belief that blockchains—as distributed, verifiable databases—offer new tools for enabling new categories of transparency fit for purpose in a digital marketplace. I'd like to share with you a bit about our journey, and what this intuition means even beyond financial markets, but I do think given the purview of this Committee, some initial remarks about financial markets are a logical place to start.

When I started my career as a securities law professor, the logic of disclosure, and disclosure obligations, was built and premised on the prevailing regulatory technology of the time—pieces of paper, and the U.S. mail system.<sup>1</sup>

Fast forward, and new channels have arisen for communications; hyperlinks to webpages and even social media tweets have been recognized as the means through which builders can fulfill and create regulatory expectations. But when it comes to the latter, perhaps no other technology is more interesting, or creates more potential, than blockchains.

I've always taught my students that rules are only as effective as the world they operate in. And as the world goes digital, pieces of paper are not exactly fit for purpose. On the other hand, when you look at them objectively, blockchains have features that make them, or at least should make them, very attractive to regulators. The national security community was perhaps the first on the beat here. They recognized that blockchains provide tamper proof information about how transactions are consummated and how and where money is directed. And as tools for builders, they can be programmed with controls and smart contract configurations that require verification before assets can be held or transferred—ensuring that participants meet baseline regulatory standards. Smart contracts can enforce additional compliance rules—such as transaction limits, geographic restrictions, or blacklisting of sanctioned addresses—before allowing asset transfers.

But as I've told market participants and regulators, it's really the tip of the iceberg. Blockchains have a lot to offer companies and their stakeholders from the standpoint of both capital formation and consumer and investor protection, even at the protocol level.<sup>2</sup> Because smart contracts are deployed on blockchains, and not on a specific server, their code, execution logs and function are distributed, fully transparent, and irreversible. Public blockchains by definition house information and data available to anyone, enabling third parties to verify and evaluate how underlying systems operate, and how participants behave.<sup>3</sup> When harnessed effectively, this kind of radical transparency can help investors, consumers and even third party developers better understand the risks and advantages of the technology they are engaging with.<sup>4</sup> Indeed, virtually anyone can view and audit the code

<sup>1</sup>For a sample of my work thinking about what technology means for disclosure see, Chris Brummer, *Disclosure, Dapps and DeFi*, STANFORD JOURNAL OF BLOCKCHAIN LAW & POLICY, Jun. 29, 2022, <https://stanford-jblp.pubpub.org/pub/disclosure-dapps-defi/release/1>; Chris Brummer, *A Developer Theory of Disclosure*, SSRN ELECTRONIC JOURNAL (2025). See also my edited book,\*

\* **Editor's note:** the above footnote cuts off. It has been reproduced herein as submitted.

<sup>2</sup>The Stellar blockchain, for example, which has integrated Bluprynt technology, natively incorporates investor protection mechanisms at the protocol level, notably through its Asset Clawback feature. Introduced with Protocol 17 in June 2021, this feature allows asset issuers to revoke tokens under specific conditions, facilitating compliance with regulatory requirements and enhancing investor safeguards.

<sup>3</sup>See Lily Francus, *Block by Block: Assessing Risk in Decentralized Finance*, MOODY'S ANALYTICS: CREDIT WHERE DUE BLOG SERIES (Jan. 2022), <https://www.moodyanalytics.com/articles/2021/block-by-block-assessing-risk-in-decentralized-finance>.

<sup>4</sup>See Chris Brummer, *A Developer Theory of Disclosure* (noting that thinking about disclosure from the standpoint of the "reasonable developer" not only improves upon standards exclusively fixated on the "reasonable investor," but it also recognizes other long-term stakeholders of value).

powering a protocol or smart contract, and begin to evaluate its robustness against varying cybersecurity threats including market attacks, front running and reentrancy, and whether it is secure for handling and transacting large sums of crypto assets.

In short, digitalization—currently taking shape in the form of tokenization and on-chain finance—enables and creates the conditions whereby transparency, accountability, and integrity are not merely regulatory add-ons, but can be leveraged as essential, built-in components of the marketplace. While regulatory uncertainty has limited the exploration of such use cases, mission driven reforms could unlock “transformative cost-saving and operational efficiency benefits . . . and innovation-led growth, broader market access . . . when operating at scale.”<sup>5</sup>

### The Bluprynt Journey

I founded Bluprynt after more than half a decade of research focused on what kind of information investors or holders of crypto assets need before making investment decisions. Crypto markets had problems with fraud, poorly understood technology, and misleading claims. And yet there was enormous potential in the technology. Figuring out how to direct capital to its best uses in the ecosystem seemed like a no-brainer. So during this period, I led a global survey in collaboration with Broadridge, asking investors what they considered crucial to know before holding a crypto asset.<sup>6</sup> This survey was part of a broader series of studies examining the current disclosure requirements for regulated assets and comparing them with the technological opportunities and risks that on-chain finance presents. In a nutshell, my conclusions from these various projects were rather simple:

- The existing backdrop on rules relating to disclosure were outdated;
- The very definition of “disclosure” needed an upgrade; and
- The existing disclosure system had evolved into one where information was meant to be filed, but not read—and useful for investment banking lawyers and litigators, but not end-users.

In the course of my research, I asked the SEC on many occasions to rethink and modernize its approach, like many of you today. And I hoped and waited for the CFTC to be empowered legislatively to do what it does best—to innovate. But the SEC’s leadership had no interest, and the CFTC was left wanting for basic powers over spot markets to be able to deliver on its end.

So I did what entrepreneurs have done for over 2 centuries in this country. I started up a company to solve the problem myself.

Startups have to be snipers and identify friction points and build from there. So our first product—and the only one I will talk about today because we have a lot coming out soon—was found in Europe. Europe’s new regulations, MiCA, took the step of doing what the SEC at that point would not, and tailoring a disclosure regime for crypto assets based upon the production of “white papers” by issuers of crypto assets.<sup>7</sup> Still, there were plenty of questions. The legislation is littered with undefined terms left open to interpretation (some as basic as “conflict of interest”) And the compliance isn’t cheap; hiring lawyers to draft a white paper, even in the EU, can cost tens of thousands of euros, and take weeks to complete.

So my team of lawyers, engineers and lawyer-engineers (yes they exist) created a solution enabling companies to effectively turbotax white papers based on a range of customer data and inputs. Part of the process involved collaborating with L1s, L2s, the European Community, national central banks and more, navigating the first MiCA pilot. We then worked on bespoke legal wrappers for new data sources and providers. And we put together a unique solution that was not only fit for the market, but also delivered software solutions for the European regulators to consider and build upon.

But we didn’t stop there. Recognizing the programmable nature of blockchains, we also built tools for developers—enabling them to embed metadata on-chain. We started with Avalanche, one of the fastest layer one blockchains, to introduce regu-

<sup>5</sup> Global Financial Markets Association, *Impact of Distributed Ledger Technology in Global Capital Markets* (May 2023), <https://www.gfma.org/wp-content/uploads/2023/05/impact-of-dlt-on-global-capital-markets-full-report.pdf>.

<sup>6</sup> Broadridge Financial Solutions, *Crypto Asset Disclosure Study: Insights on Holders and How They Analyze Their Holdings* (2023), [https://www.broadridge.com/\\_assets/pdf/broadridge-crypto-asset-disclosure-study-report.pdf](https://www.broadridge.com/_assets/pdf/broadridge-crypto-asset-disclosure-study-report.pdf).

<sup>7</sup> Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on Markets in Crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937, 2023 O.J. (L 150) 40, art. 6–8.

latory metadata and compliance on-chain.<sup>8</sup> We then shifted our sights back to the United States, working with Aptos, a leading blockchain specializing in enterprise solutions, to enable doing the same with our first Reg D document, a compliance feature for issuers of real world assets.<sup>9</sup> And we have more announcements to come.

We're only a little more than a year old, but we already have our first cohorts of customers based in the United States and Europe. We're integrating into networks and block explorers. And we're being approached by regulators, officials at central banks and others.

### Enabling Real World Use Cases

Beyond just positive use cases, this panel has a particular interest in real world ones. Not gimmicks. But the kind that enable building businesses. And here I think it's worth highlighting what it means, in my opinion, to be a modern disclosure company.

Bluprynt's use cases were born in financial markets, but we're thinking big about the digital economy as the disclosure economy, *whatever it's guise*. So we're not just building a business, we're building *systems* applicable beyond financial markets. So just for the purpose of this testimony, I'll reference today this Committee's other wonderful witnesses as to what a company like ours means.

As we see today, Cattle[P]roof tracks real-world data about cattle—who owns them, their health, and where they've been—using blockchain to make that data trustworthy. But in the real world, cattle aren't just tagged, they're bought and sold. And given fluctuations in the global economy, commerce needs tools to hedge and protect farmers and ranchers. And here we can help; if someone wants to turn cattle into a financial product, like a futures contract (an agreement to buy or sell cattle at a future date), regulators need more than just proof of ownership or health. They need clear, legally structured information about how the contract works.

Bluprynt has the infrastructure in place to help make that happen on and off chain. So while Cattle[P]roof proves the cattle are real, we help those same end-users grow their businesses.

Similarly, Bluprynt can help companies like [GEODNET] explain and publish who is validating the data, what the system rules are, and how changes happen—in a way that regulators, customers, and users can understand and trust. [GEODNET] can stay focused on building the world's best geospatial network. Bluprynt can help make sure it's understood, trusted, and compliant—so it can work with governments, big companies, or financial markets that require clear, reliable information about how the network operates.

### Looking Forward

Building high quality digital infrastructure is not easy. The technology is there. But it is as much a regulatory build as it is a technological one. And this means that in order for us to work optimally to embed and promote transparency we need help from Congress in two critical ways.

First, we need clear rules. People building products don't know where the underlying tokens fit in the regulatory dashboard, if at all. And even if they do, there's no clear way to identify compliance in ways native to their businesses.

Second, the rulebook itself needs updating. As I have said before, if technology moves, and the rules remain the same, something is going to go wrong. Either weaknesses arise, creating risks, or innovators can't build. Or both.

I think we will get there. I was pleased to see my friend Brian Quintenz nominated as CFTC Chair, and the CFTC has been lucky to have over its tenure a succession of leaders, including Chairs Tim Massad, Chris Giancarlo, and Rostin Behnam, deeply interested in technology and how to leverage it for our markets.

But make no mistake, merging technologies present a unique opportunity to rethink our policy frameworks—not through the lens of scarcity and protectionism, but instead, to coin a popular phrase, to pursue outcomes of “abundance” and openness.

This means focusing on capacity-building rather than mere constraint-setting. Instead of defaulting to enforcing old rules designed for markets of the past out of a false sense of security, we should focus on enabling modern rules that *work*—and vigorously ensuring compliance with them. Rules that expand opportunities for builders while advancing our core regulatory goals and protections. The best policy

<sup>8</sup>Bluprynt Partners with Avalanche Foundation to Revolutionize MiCA White Paper Requirement Through On-Chain Regulatory Metadata Integration, <https://www.cfodive.com/press-release/20250117-bluprynt-partners-with-avalanche-foundation-to-revolutionize-mica-white-pap>.

<sup>9</sup>Bluprynt Partners with Aptos Foundation to Bring U.S. Securities Law Documents On-Chain and Advance Tokenized Real-World Asset Solutions, <https://www.bluprynt.com/post/bluprynt-partners-with-aptos-foundation>.

outcomes will require regular review and vigilance designed to rethink outdated rules and update them for new risks, technologies, and markets.

Failing to act comes at a cost—and not just for frontier-pushing startups. It punishes the companies trying to do things right, like ours, by making it harder to deliver better, more trustworthy information to the market. Just as technical debt builds up when engineers delay essential fixes, *regulatory debt* accumulates when policymakers sidestep the hard conversations. Over time, that inaction weighs down the system. Risks multiply. Innovation slows. And when the inevitable reckoning comes, the cleanup is far more disruptive than thoughtful, incremental reform would have been.

We've seen that debt balloon in recent years—especially in crypto, where sometimes the absence of a single new rule or proposal has left an entire sector navigating in the dark. That silence hasn't yielded certainty or stronger protections. It's created a vacuum.

And the reality is that innovation doesn't wait. Whether it's on-chain—where protocols are automating trust and transforming markets—or off-chain, where infrastructure is being rebuilt from the ground up, builders are moving forward. The question is whether our regulatory frameworks will move with them.

Because in the end, it's not innovation that creates risk—it's the refusal to meet it with clarity, creativity, and courage.

I look forward to this Congress helping to close the gap before the future gets too far ahead.

The CHAIRMAN. We need clear rules of road, yes, indeed. Dr. Brummer, well said.

Mr. Garrison, it is your 5 minutes.

**STATEMENT OF COY GARRISON, J.D., PARTNER, STEPTOE LLP,  
ARLINGTON, VA**

Mr. GARRISON. Thank you, Chairman Johnson, Ranking Member Davis, and Members of the Subcommittee for inviting this securities lawyer and grandson of a dairy farmer to testify here today. My name is Coy Garrison, I am a partner in Steptoe's blockchain and cryptocurrency practice, where I advise clients on securities and derivatives of all matters. Prior to Steptoe, I was an attorney at the SEC for nearly 9 years, where I had the honor of serving as counsel to current Commissioner Hester Peirce. I am testifying today on my own behalf, and not on behalf of the firm or any client of the firm.

My message is rather straightforward; it is that passing digital asset market structure legislation is essential to promoting American innovation in blockchain technology. The promising cases presented to you here today, along with all projects built on blockchain technology, rely on digital assets being easily transferable. People that hold digital assets, people that want to participate in the protocols, and people that want to express a view on the price of a digital asset, all meet on spot market exchanges. Robust digital asset markets, therefore, serve a vital function facilitating price discovery for digital assets.

However, there are two main problems with the *status quo*. First, exchanges lack any Federal regulatory oversight to promote market integrity, to monitor against fraud and manipulation, or to impose requirements to safeguard customer assets. While there are a number of responsible platforms, the lack of a Federal regulator leaves open the door to another FTX-like failure.

Second, entrepreneurs face an unnecessary stumbling block of regulatory uncertainty in the U.S. Specifically, the SEC under Gary Gensler initiated litigation against a number of digital asset trading platforms, alleging that such entities were operating as un-

registered securities exchanges, broker dealers, and clearing agencies. While the SEC asserted jurisdiction through enforcement actions, the agency declined to provide a pathway to registration. Perhaps most troubling, the SEC failed to articulate a cogent and consistent analysis for the fundamental legal issue at hand; being how secondary trading of digital assets involved the sale of investment contracts or securities. Faced with such legal uncertainty, entrepreneurs looking to build a decentralized network in the U.S. often choose not only to build and launch offshore, but to exclude or limit the participation of U.S. persons. This outcome hurts U.S. competitiveness, and it encourages entrepreneurs and capital to flow to other jurisdictions. Fortunately, new leadership at the SEC and CFTC are already beginning to reverse the failed crypto policies of the last 4 years. For example, the SEC Crypto Taskforce, led by Commissioner Pierce, has issued clear statements scoping outside of the securities law certain transactions, and is actively soliciting public input. There are limitations, however, to what the SEC and CFTC can achieve, absent direction from Congress. One significant regulatory gap is that neither agency has clear statutory authority to regulate spot market trading of digital assets.

Congress and this Administration, therefore, have a tremendous opportunity to work together to bring sensible regulation to the digital asset industry by enacting market structure legislation.

Last week, Chairman Thompson published six principles for this market structure legislation, which I believe provide sensible guideposts upon which a framework can be built. I respectfully offer a few observations for this Subcommittee in assessing these principles.

Principle number one is that legislation must promote innovation. If a digital asset itself is labeled a security under the legislation, then each transaction in that digital asset, even outside of a digital asset exchange, would be subject to the securities laws. This would severely restrict the ability for that digital asset to be used as intended on its network. That could drive the development of the network and capital flows offshore. The legislation should focus on regulatory the spot market trading of digital assets, not regulating their intended use within the relevant network.

For principle number two, that legislation must provide clarity for the classification of assets, in developing any test to divide jurisdiction between the CFTC and SEC, I propose that the Subcommittee weigh the following factors. First, whether the test will upend current practice and bifurcate spot digital asset markets, and if so, whether there is a compelling customer protection or market integrity justification for doing so. Second, whether the benefits of simplicity and administration of the test for both regulators and industry participants should be prioritized. Third, whether there are difficulties of coordinating between the SEC and CFTC in creating and maintaining separate rulebooks. And fourth, whether any agency has the capability to fully perform all market oversight functions on their own.

In conclusion, the timing is right for Congress and this Administration to work together to implement a much-needed regulatory framework.

Thank you for your leadership on this important topic, and I look forward to your questions.

[The prepared statement of Mr. Garrison follows:]

PREPARED STATEMENT OF COY GARRISON, J.D., PARTNER, STEPTOE LLP, ARLINGTON, VA

Thank you, Chairman Johnson, Ranking Member Davis, and Members of the Subcommittee for inviting me to testify today on American innovation and the future of digital asset regulation.

My name is Coy Garrison. I am a partner in the Washington, D.C., office of Steptoe LLP. For nearly 3 years my practice has focused on advising clients how to navigate challenging legal and regulatory issues related to blockchain technology. Prior to private practice, I was an attorney for the U.S. Securities and Exchange Commission (“SEC” or the “Commission”), including serving as counsel to Commissioner Hester M. Peirce from 2019–2022 and in multiple roles with the Division of Corporation Finance from 2013–2019. My testimony today is informed by both my private and public sector experience, but I appear before you on my own behalf and not on behalf of Steptoe LLP or any client of the firm.

My message to you today is straightforward: passing digital asset market structure legislation is essential to promote American innovation in blockchain technology. The *status quo* is unacceptable: there is no Federal market regulator overseeing centralized spot market exchanges and there is a lack of regulatory clarity that only Congress can fully address. Fortunately, the 119th Congress and the Trump Administration have a unique opportunity to work together to establish sensible regulation and encourage innovation in the U.S. I provide some thoughts below to aid in this Subcommittee’s consideration of the six principles for market structure legislation recently published by Chairman Thompson.<sup>1</sup>

### **1. Robust Digital Asset Markets Are Vital to Blockchain Technology Innovation, But Lack a Federal Market Regulator**

Blockchain technology plays an important role in society today and holds significant promise in a world of growing distrust in institutions. In 2008, the Bitcoin whitepaper seeded the idea that a peer-to-peer electronic payment system could be based on cryptographic proof instead of a trusted third party.<sup>2</sup> Bitcoin soon thereafter became the world’s first permission-less, decentralized, peer-to-peer payments technology, and served as catalyst for others to build upon the concept. Since then, developers have built blockchains and blockchain-based software seeking to provide decentralized networks for everything from payments, lending, and trading, to livestock verification, agricultural equipment financing, and mapping tools, to file storage, social media, and artificial intelligence model development.

Decentralized networks and applications built upon them need an incentive structure to drive participation in the security and operation of the network. Digital assets native to these networks are therefore distributed either programmatically or by a centralized entity in a number of ways, including through capital raising transactions, airdrops, rewards linked to a consensus mechanism, and developer grants, to name a few. Digital asset spot markets exist to facilitate the trading of digital assets by holders, persons wanting to participate in or use the network, and persons desiring to express a view on the price of the digital asset. Centralized spot market exchanges therefore serve a vital function of facilitating price discovery for digital assets.

However, these exchanges lack any Federal regulatory oversight to promote market integrity, monitor against fraud and manipulation, or impose requirements to safeguard customer assets. While there are a number of responsible trading platforms, the lack of a Federal regulator leaves open the door to another FTX-like failure in the future. Moreover, Federal oversight of these exchanges will likely encourage more participation in these markets from entities hesitant to jump in absent such regulation, and in turn, encourage more innovation in the blockchain industry.

<sup>1</sup> Chairman G.T. Thompson & Chairman French Hill, *A Blueprint for Digital Assets in America* (Apr. 4, 2025), <https://agriculture.house.gov/news/documentsingle.aspx?DocumentID=7875>.

<sup>2</sup> Satoshi Nakamoto, *Bitcoin: A Peer-to-Peer Electronic Cash System* (Oct. 31, 2008), <https://bitcoin.org/bitcoin.pdf>.

## 2. The Lack of Regulatory Clarity Persists and Can Only Be Solved by Congress

Entrepreneurs looking to build decentralized networks in the U.S. often choose not only to build and launch offshore, but to exclude or limit the participation of U.S. persons. Typically they do so because of uncertainty as to whether the securities laws apply, and if they did apply, there is no clear pathway to compliance. Such an outcome hurts U.S. competitiveness and lets entrepreneurs and capital flow to jurisdictions willing to provide regulatory certainty for the industry.

A closer look at the securities law analysis reveals how difficult it is for the SEC to bring clarity on whether it has authority to regulate digital asset spot market transactions, absent direction from Congress. The legal analysis of whether any particular digital asset is sold pursuant to an “investment contract,” and therefore subject to the securities laws, requires a facts-and-circumstances consideration of the economic realities of the transaction. That analysis is guided by case law, anchored by the Supreme Court’s *Howey* test of whether there is a “contract, transaction, or scheme whereby a person invests his money in a common enterprise and is led to expect profits solely from the efforts of the promoter or a third party.”<sup>3</sup>

The SEC under Gary Gensler adopted a broad and shifting interpretation suggesting that a digital asset embodies an “investment contract” in secondary market transactions and went so far as to coin the term “crypto asset security” in court filings alleging that major centralized spot market exchanges were operating as unregistered securities exchanges, broker-dealers, and clearing agencies. Multiple district courts reprimanded the agency for its legal imprecision, with one court describing the label “unclear at best and confusing at worst,”<sup>4</sup> and another court explaining how the approach is inconsistent with the statute and *Howey*:

Insisting that an asset that was the subject of an alleged investment contract is itself a “security” as it moves forward in commerce and is bought and sold by private individuals on any number of exchanges, and is used in any number of ways over an indefinite period of time, marks a departure from the *Howey* framework that leaves the Court, the industry, and future buyers and sellers with no clear differentiating principle between tokens in the marketplace that are securities and tokens that aren’t. It is not a principle the Court feels comfortable endorsing or applying based on the allegations in the complaint, particularly since the only term among the approximately twenty options included in the statutory definition of “security” that is being relied upon in this case is “investment contract.”<sup>5</sup>

SEC Acting Chairman Mark Uyeda and Commissioner Peirce have rightly begun to reverse course, dismissing many of the cases against the centralized spot market exchanges. Accordingly, Federal appellate courts will not have the opportunity to weigh in with their views on the scope of *Howey* as applied to digital assets for the foreseeable future.

The SEC Crypto Task Force, led by Commissioner Peirce, is engaged in a commendable and fruitful effort to right the ship at the SEC and provide regulatory clarity. In recent weeks, the Task Force issued clear statements scoping outside the securities laws certain transactions in stablecoins, proof of work mining, and memecoins.<sup>6</sup> The Task Force also hosted a roundtable last month focused on defining security status for digital assets.<sup>7</sup>

U.S. Commodity Futures Trading Commission (“CFTC”) Acting Chairman Caroline Pham is similarly pushing forward for regulatory clarity on digital assets. The CFTC recently held its first Crypto CEO Forum, withdrew staff guidance on clearing of digital assets so as to not apply unequal treatment on digital asset deriva-

<sup>3</sup>SEC v. *W.J. Howey Co.*, 328 U.S. 293 (1946).

<sup>4</sup>SEC v. *Payward Inc., et al.*, No. 23 Civ. 06003 (WHO), ECF No. 90 (N.D. Cal. Aug. 23, 2024) at 19.

<sup>5</sup>SEC v. *Binance Holdings Ltd, et al.*, No. 23 Civ. 1599, ECF No. 248 (D.D.C. June 28, 2024) at 42–43.

<sup>6</sup>See SEC Staff Statement on Meme Coins (Feb. 27, 2025), <https://www.sec.gov/newsroom/speeches-statements/staff-statement-meme-coins>; SEC Staff Statement on Certain Proof-of-Work Mining Activities (Mar. 20, 2025), <https://www.sec.gov/newsroom/speeches-statements/statement-certain-proof-work-mining-activities-032025>; SEC Staff Statement on Stablecoins (Apr. 4, 2025), <https://www.sec.gov/newsroom/speeches-statements/statementstablecoins-040425>.

<sup>7</sup>SEC Roundtable, *How We Got Here and How We Get out—Defining Security Status* (Mar. 21, 2025), <https://www.sec.gov/newsroom/meetings-events/how-we-got-here-how-we-get-out-defining-security-status>.

tives, and is exploring a potential digital assets markets pilot program for tokenized non-cash collateral.<sup>8</sup>

There are limitations to what the SEC and CFTC can achieve absent direction from Congress, however. One significant regulatory gap is that neither the SEC or CFTC have clear statutory authority to regulate spot market trading of digital assets. The CFTC does not have regulatory oversight authority over spot trading of commodities. While the SEC has clear authority to regulate the primary issuance of a digital asset sold pursuant to an investment contract, there is significant doubt that the secondary trading of digital assets constitute investment contract transactions within the SEC's jurisdiction.

### 3. Considerations for Market Structure Legislation

Last week, House Committee on Agriculture Chairman G.T. Thompson and House Committee on Financial Services Chairman French Hill published six principles for market structure legislation. I respectfully offer high-level considerations for this Subcommittee in assessing each principle.

- a. ***Legislation must promote innovation. We seek to protect opportunities for innovators to create and utilize digital assets, while ensuring users can lawfully transact with one another.***

If a digital asset native to a decentralized network were to be labeled as a security under the terms of the legislation, then each transaction in that digital asset, even outside of a centralized spot market exchange, would be subject to the securities laws. This would severely restrict the ability for that digital asset to be used as intended on the network and could drive the development of that network offshore. Legislation should focus on regulating the spot market trading of digital assets, not their use as intended within the relevant network.

- b. ***Legislation must provide clarity for the classification of assets. Users of digital assets should clearly understand the nature of their holdings, including whether they qualify as securities or non-securities.***

This is the most challenging aspect of market structure given the complexities of the *Howey* analysis. Any test used to divide jurisdiction between the CFTC and SEC based on the classification of the digital asset should consider the following factors:

- The extent to which the test will upend current practice and bifurcate spot digital asset markets;
- Whether there is a compelling customer protection or market integrity reason for bifurcating spot digital asset markets;
- The benefits of simplicity in administration of the test for regulators and industry participants;
- The difficulties of coordination between the SEC and CFTC in creating and maintaining separate rules, and the resulting burdens on registered entities; and
- The capabilities of either agency to equally perform all market oversight functions.

The SEC Crypto Task Force will be a valuable resource to Congress in articulating the SEC's current views on how it intends to evaluate digital asset spot market trading, and whether there are specific types of assets or transactions with which they believe the SEC has jurisdiction over. Ultimately, however, it is for Congress to decide where to draw the line between the two agencies.

- c. ***Legislation must codify a framework for the issuance of new digital assets. The framework should permit issuers to raise capital through the sale of new digital assets under the jurisdiction of the SEC. It should protect retail investors and require developers to disclose relevant information to help users understand the unique characteristics of digital asset networks.***

This approach would be consistent with the well-established position that token offerings conducted to raise capital for a project involves the sale of investment contracts and are subject to the securities laws. Many token issuers avoid selling to

<sup>8</sup> CFTC Announces Crypto CEO Forum to Launch Digital Asset Markets Pilot (Feb. 7, 2025), <https://www.cftc.gov/PressRoom/PressReleases/9049-25>; CFTC Staff Withdraws Advisory on Review of Risks Related to Clearing Digital Assets (Mar. 28, 2025), <https://www.cftc.gov/PressRoom/PressReleases/9060-25>.

U.S. investors because the existing registration and exempt offering framework is a poor fit for the realities of the projects they are building.

Bold reforms to the existing disclosure requirements and restrictions on secondary trading under the Regulation A and Regulation Crowdfunding exemptions should be considered for token offerings sold pursuant to investment contracts. For example, audited financial statement requirements appropriately form the cornerstone of the SEC's disclosure system for public companies. However, for many development teams looking to build a decentralized network, the financial information that is relevant to a token holder is likely not the financials of the development team, but rather the wallet address(es) of the project's treasury and transparency into how and why tokens move from that address. A streamlined exemption that leverages the benefits of blockchain for transparency and contains disclosure requirements that are carefully crafted for token holder protection would be an ideal outcome.

- d. ***Legislation must establish the regulation of spot market exchanges and intermediaries. Centralized, custodial exchanges and intermediaries facilitating transactions with non-security digital assets should adhere to similar requirements as other financial firms.***

Imposing the same type of regulation on digital asset intermediaries as CFTC-registered or SEC-registered firms is a reasonable approach for regulation. Some modifications to existing CFTC or SEC rules may be appropriate to allow spot market exchanges and intermediaries, and their customers, to benefit from disintermediated trading and real-time settlement of digital assets.

- e. ***Legislation must establish best practices for the protection of customer assets. Entities registered with the SEC or CFTC should be required to segregate customer funds and hold them with qualified custodians. Customer funds should also be protected during bankruptcy.***

Protection of customer assets is a core function for any centralized, custodial spot market exchange and should be prioritized in legislation. Preserving flexibility in the type of Federal or state regulator that may have oversight over the qualified custodian will be an important factor.

- f. ***The legislation must protect innovative decentralized projects and activities. Congress should ensure that decentralized protocols, which pose different risks and benefits, are not subject to regulations designed for centralized, custodial firms. In safeguarding decentralized activities, Congress must also protect an individual's right to self-custody their digital assets.***

DeFi is a growing, but nascent industry that raises different issues from centralized spot market trading. Truly decentralized protocols typically allow disintermediated, peer-to-peer transactions and do not exercise control over transactions or a user's assets. They therefore don't pose the same risks that centralized spot market trading does to market participants. Of course, centralized entities that masquerade as decentralized protocols should be regulated in a manner that addresses the risk of their actual activities, not of the label they use to market themselves. Limiting the legislation to the issue at hand: centralized spot market trading of digital assets, is a prudent course of action.

#### **4. Conclusion**

Despite the welcome change in regulatory approach by the SEC and CFTC under the Trump Administration, Congressional action is needed to implement oversight of spot market digital asset trading because there are limits to the regulators' existing authorities. In addition to bringing regulatory clarity and customer protection benefits to the marketplace, market structure legislation is likely to encourage American innovation in blockchain technology. Thank you for your leadership on this important topic and I look forward to your questions.

The CHAIRMAN. Excellent job, panelists. That is exactly what we needed.

As a reminder perhaps those who arrived after gavel, by UC we have reduced time for our questioning for 4 minutes apiece, so that we don't *injure* the people at the end of the dais when votes are called.

In the spirit of bipartisanship, Ranking Member Davis will play traffic cop for a bit until the burden irritates him, in which case he will revert it back to me. So with that, Ranking Member.

Mr. DAVIS [presiding.] All right. At this time we recognize the gentleman from Tennessee, Mr. Rose.

Mr. ROSE. Thank you, Chairman Johnson and Ranking Member Davis, for holding this hearing. I am honored to have been appointed to serve as Vice Chair of the Subcommittee on Commodity Markets, Digital Assets, and Rural Development for the 119th Congress, and I look forward to working with the Chairman and Ranking Member to advance U.S. commodity markets and digital assets, while also delivering success for rural America.

Let me get right to my questions. Mr. Hughes, as agriculture enters this era of digital assets, how can we better integrate innovative technologies like MetaMask into more production agriculture transactions and increase the usage of these tools?

Mr. HUGHES. Well, I think we need to start thinking about how these assets can migrate online. I think you heard a little testimony earlier about the benefits of putting things like cattle, at least an instantiation of cattle, and all the information that pertains to a particular head of cattle on-chain so you can know the data, and that asset is there to be traded in a very streamline manner. Once you do that, an interface like MetaMask allows you to control those assets, give permission to who can see the data, and what types of transactions you are willing to go into. It is about getting the real world on-chain, but that requires a regulatory framework that allows companies and industries to explore this space. And so that is what we hope happens this year.

Mr. ROSE. Sure. Well, thank you, and I share your view of what we need to do next.

Mr. Tague, in your written testimony you mentioned that blockchain technologies can increase security and transparency, and lead to stronger relationships between buyers and sellers. With that in mind, please elaborate on how these technologies can strengthen market access for producers, and enhance the possibility of producers receiving higher prices.

Mr. TAGUE. Absolutely. Thank you for your question. As Mr. Hughes said, the blockchain network is central to what we are creating. The idea behind our product is trust and transparency. Right? We are trying to create trust and transparency up and down the chain, no pun intended, so to speak, from the producer all the way to the consumer.

One of the ways we do this is we use USDA process verified programs. We started with those programs because to date, those are the best ways to identify individual head of cattle. And by putting that data on an immutable ledger; that is, you can trust that ledger from start to finish, it can't be changed, or it can be changed but the recordation of that change will occur, so it provides transparency from the birth of that animal to the harvest of that animal.

Mr. ROSE. Thank you. And, Mr. Tague, can you further explain how integrating blockchain technologies into the beef industry can minimize the issues we see with payment methods and delays?

Mr. TAGUE. Absolutely. Cattle transactions really haven't changed in about 150 years. Essentially, today, if we take our cattle to market, we sell them at a sale barn, the sale barn gets paid their amount, the sale barn takes the check, they hold the check, then the check goes to the bank and the bank holds the check, and *et cetera*. So from the day you deliver your cattle to the day you get paid for your cattle, there is a delay there of days or even weeks. Using blockchain technology and smart contracts there, we can absolutely make that almost instantaneous, but also ensure that lienholders and other people that are in that transaction also get instantly paid, with full compliance.

Mr. ROSE. Thank you. And I will end here. Dr. Brummer, it is always nice to have a fellow with connections to Vanderbilt Law School. I am an alum, and good to have you with us today.

Tell me in just 10 seconds here, how do we speed up the adoption period, from early adopters to late adopters?

Dr. BRUMMER. I think certainly having a UX (user experience) that enables people to engage the technology from its benefits, and not just from a sort of crypto native interface, makes it a lot easier for more people to engage with the technology, and for people to have a sense of trust in the technology, obviously, will do a lot towards mainstreaming that technology.

Mr. ROSE. Thank you, Mr. Chairman for your—Ranking Member, for your indulgence. I yield back.

Mr. DAVIS. Yes. The gentleman's time has expired.

At this time, we are going to recognize the amazing Representative from Illinois, Ms. Budzinski.

Ms. BUDZINSKI. Thank you, Ranking Member, and thank you to our Subcommittee Chairman Johnson, for having this hearing today. And I appreciate all of the panelists here for your testimony.

I want to reiterate my thanks to Chairman Johnson for his bipartisan work to get FIT21 across the finish line here in the House last Congress. I was really proud to work alongside him to pass a few of my consumer protection priorities that ended up being included in that final bill, which I thought was really important.

I have said this before, it is really whether you like it or not, whether we are ready for it or not, blockchain technology is here and it is here to stay. So I believe it is in our best interest to utilize this technology for positive purposes, and I know some of which as panelists you have shared some of those positive outcomes with us in your testimony.

I want to share with you one of those applications going on in my district. The University of Illinois Urbana-Champaign is in my district. I am a proud alum. They are doing some really great work at the U of I, Gies College of Business, which is home to a lot of blockchain firsts. In 2022, Gies started the first blockchain ever to be created by a business school. We call it iBlock. iBlock is a platform that allows Gies faculty and students to create accounts and view transactions in a classroom setting. It is also used to teach students how to build customized blockchain environments for their own use in the classroom. Their ultimate goal with iBlock is to expand our knowledge of blockchain technology, and what they call a scalvable production—scalable, I am sorry, scalable production system. They also work jointly with the College of Engineering and

the College of Law to expand technology and usability, and to navigate the regulatory environment. Additionally, in 2023, Protocol Labs gave the first ever crypto-funded donation to Gies, a donation to be used to research blockchain questions and solutions. And this is not to mention the many other gifts that have been given to Gies over the years to research uses for blockchain technology.

So in the time that I have, I just have one quick question for Dr. Brummer. Given your position as an entrepreneur using blockchain, but also as an academic, I imagine you have a unique take on these applications. Can you speak to the role that higher education, particularly through research, play in expanding the uses of blockchain?

Dr. BRUMMER. Thank you so much. I have colleagues and friends at Urbana-Champaign, not just in the Law School. Great, great university.

Yes, I think universities have a unique gift of both students who are much more likely to be involved in the technology, and they are also learning. So they are not necessarily stuck, and a little bit more open-minded to at least explore. And I think universities have a unique position because we ask questions, and the best of us don't have answers. So when you can approach a new, novel technology with fewer priors, but also with an education and skill, you are much more likely to be able to kick the tires on that technology in a very straightforward way, and I think that is what I see in a lot of my students. I ask my students all the time, like how many of you have interfaced as law school students with blockchain technology. The hands will go up, and then I will ask more conventional stuff, and they will ask me what that is, and I feel old.

Ms. BUDZINSKI. That makes a lot of sense.

Dr. BRUMMER. Yes.

Ms. BUDZINSKI. Thank you very much.

Dr. BRUMMER. Thank you.

Ms. BUDZINSKI. And I will yield back.

Mr. DAVIS. The gentlelady yields.

At this time we will recognize the gentleman from Oklahoma, Mr. Lucas.

Mr. LUCAS. Thank you.

Many legislative proposals for a digital asset regulatory framework grant the CFTC authority to oversee spot market authority for decentralized changes.

Mr. Garrison, what are your views on how to address the spot market gap? Why is it so important to pay attention to this issue in our discussions around digital asset market structure?

Mr. GARRISON. Thank you. So I think the importance comes from the fact that there is no Federal market regulator overseeing the spot digital assets right now. So that means all participants are subject to the whims of the trading platforms and what protections they put in place on their own. Right? So things like preserving market integrity, seeking to prevent fraud and manipulation, front running, these types of concerns, the safeguarding of customer assets. There is no Federal standard that is being imposed upon them right now, and I think that would rightly be a focus for Congress as it considers market structure legislation.

Mr. LUCAS. The United States is unique in that our markets are overseen by two different regulators; the SEC and the CFTC. And this can present challenges, particularly for hedging strategies that involve products in both jurisdictions. For example, investors might hedge Treasury holdings in the SEC jurisdiction, of course, with Treasury futures in the CFTC jurisdiction. This situation will also come up in digital asset markets.

Continuing again with you, Mr. Garrison, how should the Committee be thinking about this as we look at market structure legislation? Should we allow for digital asset products that are naturally hedged and offset to be marginalized together in the same portfolio?

Mr. GARRISON. So I think the focus and the cleanest approach is to continue to keep clear lines between the CFTC that analyzes the risk hedging functions, and the SEC, and to also finding the right spot of, does the CFTC and SEC share jurisdiction over the spot markets, or do you just assign to one or the other. Now, there's obviously a lot of pros and cons with either approach, but at the end of the day the SEC and CFTC have a long tradition of working together. There certainly are challenges that can come along with that, but as we saw in 2020 when the SEC and CFTC had an open Commission meeting together and voted on various rules in connection with each other, as long as the leadership of those agencies are working hand in glove, then they can achieve regulatory harmonization.

Mr. LUCAS. A theme that I continue to hear in my discussions with industry experts is the need for regulatory clarity in the digital asset market, to encourage innovation and stay competitive globally. That is why my bill, the Securing Innovation and Financial Regulation Act (H.R. 9633, 118th Congress), codifies LabCFTC and the SEC's strategic hub for innovation and financial technology. Both of these offices would make the Commissions more accessible to market participants, and foster fintech innovation.

Mr. Tague, your product currently helping ranchers in my home State of Oklahoma is quite the technological achievement. What would it mean for ag producers to have regulatory certainty and assistance like that that would be provided through my bill?

Mr. TAGUE. Thank you, Congressman Lucas. Yes, it would be essential. One of the things that we need as entrepreneurs is that regulatory certainty for investment. Most investors are not going to invest a large sum of money into a product that there is not regulatory certainty on. But it also means that with that investment, we can provide these type of tools to ranchers and farmers too to make sure that they get all the benefits of this technology.

Mr. LUCAS. Thank you.

And I yield back, Ranking Member.

Mr. DAVIS. Thank you so much.

At this time, Mr. Figures from the great State of Alabama, 4 minutes.

Mr. FIGURES. Thank you. And thank you for hosting this hearing, Mr. Chairman and Mr. Ranking Member.

I represent a very rural district geographically. About 80 percent of my district is relatively rural, some of the most rural parts of the State of Alabama, where getting online is a challenge. And

when we talk about blockchain technology, when we talk about being able to leverage the assets and the benefits of this technology, that is something that concerns me with making sure that our rural communities don't get left behind. I am supportive of the benefits of the technology, and supportive of innovating in ways that will further positive life outcomes and business outcomes, and just overall experience for our rural communities.

So can you guys talk to me a little bit about what we can do to ensure that our rural communities are not left out in this wave of innovation? And if we can start with you Dr. Tague—or Mr. Tague, I am sorry.

Mr. TAGUE. Certainly. Yes, I believe that investment in rural broadband structure, particularly in the rural areas, is vitally important, especially for what I do. Without that, I am kind of a non-starter. Right? But I do also believe that blockchain technology is bringing a lot of things to bear that will make that investment in rural broadband technology much more attractive, because we are actually bringing real-world use cases that need a lot of piping, so to speak, to come back to the market. So I think it all—a rising tide lifts all boats, is essentially what I am saying.

Mr. FIGURES. Anybody else want to take a stab at it?

Mr. HORTON. Congressman, yes, these technologies that use blockchain called DePIN, or Decentralized Physical Infrastructure Networks, are particularly good at bringing technology to more rural communities.

Our first customer in the agricultural space, Deep Sand, was stymied by the fact that there was no precise positioning network in his southwest corner of Oklahoma that he could access, and that is what got him started in looking into us. It wasn't interest in crypto or Web3, or anything, it was a practical need to be able to build infrastructure and provide infrastructure to his customers, which are farmers.

Mr. FIGURES. All right, thank you. And I know from a securities standpoint, from a cybersecurity standpoint, like one of the attractive elements to blockchain technology that some people are familiar with are the benefits in being able to secure it.

Can you talk a little bit about the steps that you guys take, and how you guys prioritize that cybersecurity to make sure that we can deploy this technology in rural areas, these are rural farmers, that even if they can take advantage of the technology, if something goes wrong, if somebody is attempting to manipulate anything, talk about how you guys prioritize securing this technology, and how we make sure that farmers in Eufaula, Alabama, can feel secure in the investment that they are making in these sorts of technologies.

Mr. HORTON. In our case, Congressman, the hardware itself has a cryptographic chip in there that is certified by the foundation, and that is what allows us to support a decentralized deployment of these stations, is that there is actually a device in there that is programmed to sign the data, and ensure that data is authentic and originated from a real GEODNET station. We also leverage the infrastructure and space. The different satellite constellations have different data that comes down, and our devices get to see—because we have a global footprint, we see that data first, and we can

use that as kind of a code to make sure that people aren't faking the data.

Mr. FIGURES. All right, and the last thing I will just add, just more so of a statement, is you guys are great at breaking this down, and as we say in Alabama, putting the hay down where the goats can get it. And I think that is necessary in general from a messaging standpoint for more Americans to feel comfortable in this technology, is hearing these real-world, practical explanations at a very base level understanding. So I appreciate what you guys are doing, and thank you.

I yield back.

Mr. DAVIS. The gentleman's time has expired.

At this time we recognize the gentleman, Tracey Mann, from Kansas.

Mr. MANN. All right, thank you. And thank you both for hosting this hearing. Thank you all for being here.

This Committee and Congress, frankly, has really grasped with, what does it look like to regulate the cryptocurrencies, and there's differing degrees of opinion on that, but I feel very strongly, and this panel really exemplifies the fact that we have to make sure whatever we do there doesn't hinder new technologies from being built on the blockchain. And I think just shining a light on what you all are doing is remarkable the technologies that you are building, and how it really helps our ag producers every day, is amazing.

I represent the First District of Kansas, which is the western  $\frac{2}{3}$  of the state. For the most part, we have seen production in my district, and around most of the country, dramatically increase regularly and pretty constantly over the last 150 years. We are now in this season, as we all know, where, specifically for our commodity producers, we have very input costs and relatively low commodity prices, which has—puts a big squeeze on our—some of our best ag producers are eating into working capital, and it is a very dire situation on the family farm. But appreciate you all being there. I appreciate the new technologies that are helping address these concerns.

My first question for you would be for Mr. Horton. As I mentioned, it is becoming evermore expensive to farm, margins continue to shrink, and I—that a little bit, but how does your technology or your service help farmers achieve the benefits in a way that can help both small, medium, and large producers become more efficient?

Mr. HORTON. Good question, Congressman. Yes, as one of our customers always tells me in the ag business, farming is hard enough. And the way precise positioning helps farmers is that when you farm a field, if you drive the tractor manually you will have anywhere from 10 to 20 percent of overlap; like you basically drive over the same area multiple times. By having centimeter-accurate GPS, you are able to let the machine steer itself, and it avoids that overlap. And that translates directly into reduced input costs such as fuel and chemicals when you are spraying, and that really drops to the bottom line.

Now, traditionally, centralized solutions to this problem have either lacked coverage in certain areas, or they have been pretty

darn expensive. And that has provided a hard time for smaller operators to get an ROI with the technology. Through this kind of community-based approach that is how this blockchain-based GEODNET network works, we have been able to bring that cost substantially down and introduced the precision agriculture technology to a lot of new farmers.

Mr. MANN. Tremendous. And then how does that work? So does their combine or tractor or sprayer have to be equipped with certain, obviously, software and hardware to be able to utilize the technology?

Mr. HORTON. Yes, sir. So there are two solutions. One solution is to use the technology that is already on the equipment, and most modern equipment—or I would say—should say all modern equipment being built today by folks like John Deere, Case, and AGCO does come equipped ready to connect to a network like GEODNET. And then there are solutions for retrofitting machines. So you can put on a retrofit kit that will actually sort of put a motor on the steering wheel, which will let it to automatically steer. And those are also extremely popular, and lets you utilize older assets and bring value out of them.

Mr. MANN. Great. Well, thank you for having this hearing. As an aside, I will never forget, 20 years ago I was in the real estate business, when I called my dad and he—I knew he was planting, right, and I said, “Hey, Dad, what are you doing?”, and he said, “Well, I am sitting on the side of the field.” And I said, “Why is that?” And he said, “Well, my satellite is down.”

Mr. HORTON. Yes, sir.

Mr. MANN. And I remember that moment knowing things are never going to be same because he no longer spent the \$30,000 to put markers on the side of the planter, because you don’t need them, but if your satellite—if the technology doesn’t work, you are entirely shut down. But I commend you, and all of you all, for what you are doing and how it is helping producers in the field.

And thanks for having this hearing. I will yield back.

Mr. DAVIS. The gentleman yields back.

At this time we will recognize our, actual, Vice Ranking Member, and that is Mr. Vindman from Virginia.

Mr. VINDMAN. Thank you, Mr. Chairman. Thank you, Ranking Members—thank you, Ranking Member. I am proud and honored to serve as the Vice Ranking Member for the Subcommittee on Commodity Markets, Digital Assets, and Rural Development. And I have had a career that involved emerging technology and policy at the highest levels. My work at the White House National Security Council illustrated to me how important it is to get the balance right on emerging technology. And so, for instance, when we are looking to balance protecting consumers *versus* not stifling technology, it is obviously very critical for emerging technology to get that balance right.

Dr. Brummer, can you please share your perspective on FIT21, which passed from the Committee last year, what it did well, and the areas where it could be improved?

Dr. BRUMMER. Absolutely, Congressman. It is a big question. I think that FIT21 did a number of things that were excellent, particularly given the context in which the bill was put together. I

mean it does something that you have heard from all of us here today, that it helps to define clear roles for the CFTC and the SEC, it helps to modernize your digital asset trading platforms, it starts to put us on the journey of registration requirements for digital commodity exchanges. I think those are real accomplishments, and they cannot be overlooked.

I think that when you create rules, particularly for emerging technologies, a couple of things you want to probably keep in mind. FIT21 was probably written where it had certain kinds of node and validation architectures in mind that were more 2020, and I think however you decide to sort of think through your regulatory perimeter, it has to be sort of future-proofed and flexible enough to engage with however technology ends up evolving.

I think the—there are certain kinds of things you certainly always want to see. You want to ask yourself about the segregation of customer assets, you want to ask yourself and ensure that in bankruptcy there is some kind of defined status for customer funds with exchanges. But really, I am here to talk about, obviously, disclosure. I think from the disclosure standpoint, there was a lot of good work done to kind of identify for the SEC certain kinds of disclosures that you would need. I think the SEC is going to have its job in perhaps even elaborating on that list, bringing in things like tokenomics, which I think is really important if you are going to be an investor. Was actually quite delighted to see my friend, Brian Quintenz, over at the CFTC, and I know he will have his own hands full. I think the disclosure issues and what needs to be disclosed, even in—with decentralized assets, is an interesting question, but it is not something that the CFTC has not tackled before. I mean it kind of inheres to the nature of commodities. So I think I would like to see a little bit more about that.

Mr. VINDMAN. Okay, thank you.

And then I have a question for you, Mr. Horton. I think about things as a retired 25 year veteran of the Army in a national security context. And you talked about GPS in your testimony. Can you elaborate on some of the potential national security benefits to blockchain technology?

Mr. HORTON. Yes, sir. I think having a decentralized network of these nodes provides a very good way to detect things like jamming and spoofing, and localize those things. The GPS signal that comes to us from 12,000 miles away from space is very weak when it gets here to the planet. And so having these nodes out there that are very sensitive receivers, that is able to help us identify those types of things. We are also working with some of the new low-orbit satellites that are being launched, to provide ground infrastructure for those, and doing that in a decentralized way, will provide over time additional benefits to the sort of reliability and resilience of our positioning networks.

Mr. VINDMAN. Thank you. I would like to ask the same thing from everybody, but I will wait until next time. Thank you.

Mr. DAVIS. Time has expired.

At this time we are recognizing our Subcommittee Chair, Mr. Johnson from South Dakota.

The CHAIRMAN [presiding.] Thank you, Mr. Ranking Member.

I am struck by how thoughtful all of the testimony is, and how much agreement there is. And to just kind of underline that, I am going to ask three yes-or-no questions. I am not attempting to trap anybody. If—after we are done with my three yes-or-no questions, if you want to clarify your answer, I will give you time, I promise. All right, and so I am just going to ask each question and just roll down from you, Mr. Hughes, down to Mr. Garrison, and we will just see if we have any agreement on these things.

So first off, over the next few years, gentlemen, will blockchain technology enable fantastic new capabilities in hundreds of industries?

Mr. HUGHES. Yes.

Mr. TAGUE. Yes.

Mr. HORTON. Yes.

Dr. BRUMMER. Yes.

Mr. GARRISON. Yes.

The CHAIRMAN. Would it be good for our country if we are the home for that innovation?

Mr. HUGHES. Yes.

Mr. TAGUE. Yes.

Mr. HORTON. Yes.

Dr. BRUMMER. Yes.

Mr. GARRISON. Yes.

The CHAIRMAN. Is a lack of a clear regulatory regime around digital assets and blockchain, does that risk reducing innovation and investment in this country?

Mr. HUGHES. Yes.

Mr. TAGUE. Yes.

Mr. HORTON. Yes.

Dr. BRUMMER. Yes.

Mr. GARRISON. Yes.

The CHAIRMAN. Oh, you guys are so good. Some of my colleagues on both sides of the aisle will sometimes wonder if any of this is real, and I get it. When we imagine going to pay for bubblegum with Bitcoin at the point of sale, that maybe doesn't seem like a huge step up from the way we can pay with our phones today. But what you gentlemen have been talking about today is real life. This is about marketing capital. This is about precision agriculture. This is, in fact, real. And what we know is that if we don't get a regulatory structure in place, that our country risks falling behind.

And so, Mr. Tague, you talked about this transparency and some of this power that comes on the cattle side, but we could get some of that from other solutions. Couldn't there be some centralized solutions, like an eBay or an Amazon that would give some of this transparency? Why blockchain?

Mr. TAGUE. So we specifically chose blockchain *versus* a central eBay, PayPal type of model because even then, you are still having to trust a central authority or a central person to trust that data, and there is potential for bias there. Blockchain is a distributed ledger, there is no bias. So we specifically chose that for the trust factor over creating just a central eBay, PayPal type.

The CHAIRMAN. And that is—those capabilities, number one, they are exquisite today, but also it is hard to imagine what innovators

like you and others will be able to do over the course of the next few years. Is that right?

Mr. TAGUE. Oh, that is correct. The technology just is ever expanding, and as I have—was having discussions with other panel members, you can literally go into the ether, no pun intended, when you are talking about blockchain technology and what it can do.

The CHAIRMAN. So, Mr. Horton, you explained in your testimony GEODNET has its own token, but it doesn't have its own blockchain. So help us understand, what is the GEODNET protocol, what is GEOD, how does that interact with Solana, give us some sense to how they fit together.

Mr. HORTON. Yes, so you can think about the layer one blockchain as kind of this distributed operating system that projects like GEODNET build on top of. And GEODNET is an application that really connects providers of this RTK data to users of this RTK data, and the token is able to help those buyers and sellers transact and record that data in a consistent, transparent way. That also provides an ability for you to reward the stations that are providing good coverage and good performant data, and incentivize that coverage to grow.

The CHAIRMAN. Yes. Very well said. With that I would yield back, and recognize a gentlewoman whose efforts in the last Congress strengthened the final FIT21 product, the Ranking Member of the full Committee, Ms. Craig.

Ms. CRAIG. Thank you so much, Mr. Chairman.

This question is to Dr. Brummer. We all know that one of the key components to customer protection is disclosure, but historically, while acknowledging the need for disclosure regulations for customers, many in the financial sector complain continuously about the cost of current and new customer disclosure requirements.

From your testimony, it sounds like blockchain can offer a solution that could help the financial sector meet many of its current or potentially new customer disclosure obligations at much, much lower cost. Do I have that right, number one, because if we can enhance customer disclosures at an affordable price, that enhances customer protection too. Am I correct?

Dr. BRUMMER. Absolutely. One of the—and this is building on another sort of statement that we have all heard, blockchains are pretty neat. They allow data to be composable, programmable, it is transparent, and that programmability enables all kinds of functionality. And there are certain kinds of questions, I deal with central banks and regulators, and L1s and L2s all around the world. And when we look at different regulatory regimes, there is a neat aspect and functionality in blockchains that can enable disclosure solutions at a much lower cost, faster execution, and really can, frankly, even give lawyers a run for their money in terms of the compliance services that you can now put on-chain.

Ms. CRAIG. Thank you so much.

I actually have a question for the whole panel, and please keep your answers a little short here. Are any of you familiar with the approach that foreign governments have taken with regulating this

technology, and if so, any lessons learned, dos or don'ts, that we can take away from their examples?

Mr. HUGHES. I think—yes, I am familiar. I think a lesson that they have—that can be taken away is focus on centralized intermediaries first, because that is where the majority of the economic mass is currently. They have not had—and the second lesson is they have not had a heavy hand on regulating the technology itself, because that allows innovation and the real-world applications, which I think you see as examples at this table.

Mr. TAGUE. I—that is definitely not my area of expertise, but I do think that, as I stated in my testimony that, that our regulation, time is of the essence, because I do believe that there are other jurisdictions way ahead of us.

Ms. CRAIG. Thank you.

Mr. HORTON. Yes. I am not a lawyer, I am an engineer, but the same basic answer as Mark. We found that other jurisdictions have clear guidelines for what is a digital commodity, what is a utility token, and that is helpful, and that is why you find the vast, vast majority of projects that do have a token have their foundation based offshore.

Ms. CRAIG. Thank you. I am not a lawyer either.

Dr. BRUMMER. Unfortunately, I am. I deal with lots of international folks as well. I think that where most regulators sort of get caught up from time to time is that we are taking terms of art and we are trying to translate them into a legal regime. And I think one of the interesting tasks that all of you will have is coming up with something that is elastic enough for the future, but concrete enough for people to work with and to build on top of. And sometimes internationally, regulators and policymakers kind of stumble a little bit on that.

Ms. CRAIG. Thank you.

Mr. GARRISON. And one last quick observation is, those regulators of jurisdictions that have allowed for experimentation through some type of sandbox I think have shown a great ability to allow industry to try new things, while also preserving consumer customer protections.

Ms. CRAIG. Thank you, Mr. Garrison. That is fantastic. That is a lot of info. in a very short amount of time.

So with that, Mr. Chairman, I yield back.

The CHAIRMAN. Mr. Nunn, you are recognized.

Mr. NUNN. Well, thank you, Mr. Chairman. And I would like to align myself with a lot of what Representative Craig just highlighted here.

Look, I am from Iowa. We know the CFTC, we know corn and pork bellies are commodities, and we know that my bankers on Main Street, Des Moines, have stocks and bonds, and those are securities. It is a pretty straightforward gig. But serving on both Agriculture and Financial Services, we recognize that when we enter the digital asset space, it is a lot more confusing, not only for the innovator, but certainly for the end-user. As we look forward in this, I guess I am challenged by the regulatory uncertainty that seems to have occupied this space. We will take Ethereum, for example. Look, first, Mr. Chairman, it was treated in 2018 as a security, and the SEC officials said that it was not. And certainly, as

securities have changed, then the CFTC then agreed. But then we went to the Biden Administration, and under the Biden Administration the SEC labeled it as a *security*, and the CFTC called it a *commodity*. Now we have a conflict. Going forward, I have asked both the former chair of the SEC and the CFTC right here in this room, the Chairman will recall, to help provide some clarity for this issue. And guess what, we walked away more confused than where we began. That is not good for American investment, that is not great for American innovation, and most importantly, this allows our competitors in this space to be highly successful when they have some framework and the United States is looking at over-regulating something that it clearly can't even figure out on its own.

So with that, Mr. Hughes, you have worked not only in the digital asset space, you are a software guy, do you think candidly this type of whiplash is hurting American innovators?

Mr. HUGHES. It absolutely is. Our products are used by software developers, and over the last several years really the work has migrated overseas. I think you are starting to see that change now. But when we are talking about a chilling element, we are not only talking about apps like MetaMask and other apps, you are talking about the chains themselves. Being an open-source software computer networking .deb one day, going about building a new world computer, and then all of a sudden you are served with an SEC subpoena out of the blue, that doesn't make for a conducive working environment trying to evolve the next era of innovation.

These people want to work in the United States.

Mr. NUNN. Right.

Mr. HUGHES. They want to work with U.S. companies, they want to found U.S. companies, they want to—their—this is where the talent is, this is where the capital is. If we just get a coherent regulatory structure that people can actually comply with, rather than it being impossible to comply with, we are going to see a lot of doors open, and that is going to be a very good thing for this industry, but the country as well.

Mr. NUNN. So I can think of no better way to spend an afternoon than having a government official call you in, we are from the government, we are here to help you, but I have heard real horror stories from folks who have gone in to try and be helpful from the private-sector, only to be lambasted by the SEC, and then to be fined for the very information they shared with the SEC trying to get clarity, to the tune of lawsuits and millions of dollars being spent in this.

Briefly, can you share your thoughts on, between the SEC and the CFTC, did anybody offer a roadmap here that we should start replicating and given to law here in Congress?

Mr. HUGHES. I—well, unfortunately, no. We were very much encouraging both agencies to engage with Congress to come up with a coherent regulatory regime. I think the CFTC did a much more admirable job with that.

Mr. NUNN. I would agree with you on that.

Mr. HUGHES. But what we are seeing now is full engagement. I think what the SEC is doing now is—should be applauded. I think their taskforce is the right way to go about doing it. There is a kind of a cart-and-a-horse problem, because we need a new legislative

regime, and then the SEC has to fill in the gaps, as well as the CFTC. But they are doing a great job trying to narrow the gap, but really, they are putting a ball upon a tee for Congress to kick the field goal, and that is what we need to happen.

Mr. NUNN. My time has expired. I yield back to the chair, only to say that made in America starts with keeping our innovators right here in the country to begin with. Thank you, Mr. Chairman.

The CHAIRMAN. Although she is a freshman, she is certainly no stranger to this chamber and how it runs. With that, we would recognize the gentlewoman from Maryland, Mrs. McClain Delaney.

Mrs. MCCLAIN DELANEY. Thank you. And thank you to our Chairman and Ranking Member for organizing this and, of course, to our incredible panelists.

I do want to lift up—I believe we need a much-needed bipartisan regulatory framework for clarity, to ensure that there is transparency, trust, prevention, fraud manipulation, and the promotion of innovation and U.S. competitiveness. Very key. And I would like to, for the interest of time, for—direct questions to Dr. Brummer and Mr. Garrison. And I am a Hoya lawyer as well. So, Go Georgetown. But I am also an Idaho potato farmer's daughter, and represent the Sixth District of western Maryland, and so I am going to be talking about applying blockchain technology to agricultural supply chains, and in particular some of our dairy farmers.

A secure food supply chain plays an essential role, as we know, in ensuring customer trust and protecting health, and blockchain technology is definitely a solution to these challenges. But the untraceability and—of solutions, our farmers and ranchers and businesses want verifiable information, and this technology could really be at the core of the next revolution.

Mr. Tague, your testimony had highlighted the potential benefits in recordkeeping and traceability, but Maryland farmers have really started to have an interest in blockchain technology for traceability. Can you tell me how, like, my farmers there and across the country, we can really adopt but also build trust in this technology to modernize their operations and improve efficiency, and is there any other challenges you haven't mentioned which exist to get this technology widely deployed?

Mr. TAGUE. Excellent question. So, generally, in the ag space we are generally price takers, we are not price makers, and verifiable data is something that can help us receive a premium for our product. For example, cattle are a great example. If you put cattle on a commodity market you can't tell one from the other, but if you have verifiable data you can tell that story of that individual through that, and then get paid a premium through that. Obviously, through USDA process verified programs, they have great premiums that they can offer through those.

Even in the farming community, for example, also if you can verify that a specific crop came from a specific region, and you have that verifiable data that shows that you have a premium product *versus* another one, that is a great way for farmers and ranchers to receive premiums for products.

A lot of the challenges that we have that I would say, specifically in the ag spaces, blockchain technology and crypto, especially to ag producers, can be a little bit scary. We have a lot of education to

do. That is what—as I mentioned in my opening testimony that I really feel like we want to be in the background, we don't want to be up at the front, we want to be helping these markets operate more efficiently so we can help those price takers get a premium *versus* being in a commodity.

Mrs. MCCLAIN DELANEY. Sounds good.

And then this is to all—any of you who want to quickly talk about this. I spent—many rural areas don't have the required infrastructure, as we discussed, and most of my life—much of my life I spent working to bridge the digital divide, particularly in rural America. To any of the witnesses, as we roll out rural broadband, are there platforms designed for farmers to use in low bandwidth environments, or do any of your platforms offer offline capabilities, for like the 20 percent of farmers in my district that lack high-speed broadband?

Mr. TAGUE. We do offer offline capabilities that will catch the data and re-upload as you get access.

Mr. HORTON. Our network does rely on having good internet connectivity, but I think that these decentralized protocols called DePIN networks, these Decentralized Physical Infrastructure Networks, really offer an attractive way to extend coverage out to rural areas very cost effectively.

Mrs. MCCLAIN DELANEY. Thank you.

I yield back.

The CHAIRMAN. Mr. Jackson, you are recognized. And again, a Member who spent a lot of time on the bill last year, and made it better with his efforts, you are recognized.

Mr. JACKSON. Thank you, Chairman Johnson. Thank you, Ranking Member Davis.

To Dr. Brummer, a question for you on key elements that you would like to see that should be required in this legislation regarding digital assets, and what protections would you recommend, how best can we help the industry?

Dr. BRUMMER. I said this earlier, I think that FIT21 was pretty remarkable in terms of how much ground it was able to cover. When I look at it from a 10,000' level, there are core kinds of protections if you want to mainstream the technology and if you want to think about segregating customer assets, I think that is an important thing to think about. You want to create a mode of regulatory clarity, identifying both the SEC and CFTC oversight that is workable and doable, both in theory and in practice, and engaging with both the academics, but also the industry folks on that, I am sure you have been very engaged in.

From the disclosure standpoint, I would suggest that when it comes to the commodities and digital commodities that you recognize really the longstanding tradition that the CFTC has of creating disclosures in its own way. I think a lot of people have said that the CFTC has no experience when it comes to disclosures and creating information. Actually, it actually has a very longstanding history of being able to do so. It just does it in a way that is different from the SEC. And to think through, well, what does that look like for the digital commodity space, I think is something that either legislatively or through the rulemaking process is something that eventually people are going to have to grapple with.

Mr. JACKSON. Thank you so much.

And the second question would be open to anyone on the panel regarding the digital ledger platform. Do you see an advantage or disadvantage in a public *versus* a private? Which do you prefer?

Mr. HUGHES. I think that time has started to demonstrate that open permission-less ledgers are—the economics around them are a lot more attractive than private ledgers, and that is simply because a private ledger you have to—instead of just running a single server, you have to run lots of servers. Wall Street has examined private blockchains as a platform to improve their own internal services, but also to offer new offerings to customers.

Those efforts have largely wound down. If you are on an open permission-less ledger, like Ethereum, what you are basically doing is you are plugging into a system which already works, so your infrastructure costs are very low, and the security and the open architecture is really advantageous for you. So I think open permission-less ledgers are things that we should be supporting in any future legislation.

Mr. JACKSON. All right, thank you very much.

And I would like to thank Chairman Thompson for coming back to hear my questions. I yield back my time, Mr. Johnson, Mr. Davis.

Mr. THOMPSON. Thank you, Jonathan.

The CHAIRMAN. With that, the legend of Howard, Pennsylvania, Mr. Thompson, you are recognized.

Mr. THOMPSON. Yes. Well, my apologies for—I feel like I am speed dating this afternoon. A Chairman's work never ends. So—but I am so grateful to all the witnesses that are here, and to our leadership that we have with the Subcommittee. This is a very exciting time. We don't really know everything that is—what is over the horizon here, but you have shared some insight into that.

So I will be quick with my 4 minutes, which I am blowing through already. Mr. Tague, you are a fourth-generation cattleman, and we want to make sure the next four generations of your family can carry on the tremendous legacy of your ranch. But those in the sector are constantly met with new challenges. You said: "American agriculture is being held back by fragmented systems, paper trails, and a lack of transparency." How do you see blockchain and digital asset tools being part of the solution to this problem, and ensuring that we see the next four generations of American farmers, ranchers, and producers, and do you see these tools encouraging younger generations to get into that sector to continue the hard work that you and so many others do?

Mr. TAGUE. Thank you for the question, Chairman Thompson. And, I absolutely believe that solutions like ours are key to attracting younger folks into the industry. As most of you know, the—kids—there is an app for that, right? They expect that in today's world. And if you think about it from, for example, I have or my nephews, if they develop a specific type of grass-fed beef cattle that can top the market, and they need to be able to transfer that data to the public to create that trust and transparency to get that premium, we offer that solution to do that.

In today's market, as I had mentioned earlier, we haven't changed in 150 years. We have been doing it the same way for a

long, long time. And it has just become inefficient, and it really breaks down trust because when you have a paper trail, or if you are relying on paper *versus* an immutable ledger, papers get lost, for example. Right? We have that nightmare tale of losing your cabin records in the washing machine because you forgot to take your cabin book out. Right?

So yes, no, I believe it is absolutely essential for—to continue.

Mr. THOMPSON. Very good. Well, thank you.

Mr. Horton, not only is GEODNET a solution to farmers and others who rely on precision mapping data, but blockchain was the solution to creating GEODNET. You said “It would have cost billions of dollars to place antennae around the country.” Would this project for precision mapping be possible without blockchain technology? And please speak to blockchain’s unique ability to be part of the solution to this problem.

Mr. HORTON. Yes. I think there is very strong evidence that it is not possible, and that the—people have been trying to build this kind of network for 20 years, and both centralized companies as well as governments have spent a lot of money trying to put up stations and create a network, and it just hasn’t happened. And GEODNET in 2 years has been able to build the world’s largest network by—in terms of stations by more than a factor of 2. And I think at the root of that is the underlying blockchain, and the incentive that you can provide by having a token.

We presented the idea first at the Institute of Navigation’s GNSS+ conference. And it is a very conservative community. We thought the idea of introducing using blockchain to solve this problem of the reference station network would be controversial, we didn’t know if people would like it, and in turn it won the best presentation award, and immediately attracted folks from the industry to help us participate and create this network.

Mr. THOMPSON. Well, very good. I thank all of you. We thank you for telling that story, for all of you sharing the story about exciting prospects for the future.

And with that, Mr. Chairman, my time has expired.

Mr. DAVIS [presiding.] All right, thank you so much, Mr. Chairman. We appreciate it.

The capability of blockchain technology feels limitless, not only in the crypto-related world, but across all industries, as we have been hearing so much of today.

North Carolina’s First Congressional District is extremely rural; 22 counties. Matter of fact, I was informed that every single county by our state’s definition, all 22 are defined as *rural*. As we have heard time and time again in different hearings held by the Agriculture Committee, rural communities sometimes can feel left out of the process, not quite fully understand how they integrate. I hear back home all the time, especially when we are talking to farmers, small-town mayors, people back home that are just trying to make it.

So my question, and I am going to try and go at this a different way, from Dr. Brunner—Brummer, is, if you can make that pitch, we are back in rural North Carolina, rural America, what would be the pitch for why blockchain, various applications?

Dr. BRUMMER. It makes dealing with the government and others a lot easier. We have already heard about paper and how paper can— isn't always the best technology, especially if you are in rural areas. I grew up in an area, and I tell my friends here, it is like I actually had to hop down a dirt road to get to my mailbox, and then people then ask me what is a mailbox here in D.C. sometimes.

And I understand that challenge. But one of the things—we already talked about compliance with the rules, but I have always thought about how can you make communication understandable, no matter who you are. Disclosure is not just for—in a legal sense, but in terms of businesses and communications. I think it helps with adoptability, adaptability, for people to use the technology.

You are talking about farmers who are themselves becoming proactive participants in transparency, and making that information available to people who buy their products. What we do at Bluprynt is we just take that data, and then we put legal wrappers around it and we automate it so they don't have to think about it. But ultimately, you are talking—and you would go to those towns and those mayors and say how can we make sure that we connect you better to the overall digital economy. And the way in which we can do this is in a way where you don't have to necessarily even know that you are operating on something called a blockchain, but we are going to show you and give you certain kinds of tools so that you don't have to pay as much, and that you can move and do things a lot faster and at scale.

Mr. DAVIS. Mr. Tague, I heard you talking earlier, I mean we are talking about the farmers, agriculture, and I get the question—I hear people ask me all the time what are they doing up there. So my question is, you can continue along this thought line—this line of questions, but you mentioned earlier education. What do you believe is the best strategy and approach that we can take to educate Members of Congress, educate the constituency, broadly speaking, because, guess what, Members are often driven by the constituents. I would love to hear.

Mr. TAGUE. Yes, sir. Excellent question. Education is going to be key in this issue because, well, one of the great things about the technology is if we can speed up payments and reduce cost, right, that is a game changer for a lot of folks in rural areas. Right? But, being able to break down the technology or break down the concepts to the simplest levels we can possibly make them. For example, our solution where you take a cow, and you put a tag in its ear and you identify that cow, and that cow—as it travels through the chain you can follow it through its lifecycle. People understand that. That is a very easy way to give you the concept of a blockchain of why that—you can trust that data, because it is an immutable—it is a digital notary, essentially, is what it is.

So I believe that breaking it down to the simplest concepts we can possibly can is going to be key to educating most folks.

Mr. DAVIS. Thank you to all the witnesses.

And, Mr. Chair, we yield back.

The CHAIRMAN [presiding.] Mr. Davis, what an experience in a town and a time so often fascinated by food fights, there were no insults today, no indictments, no political speeches. Instead, it was just good, thoughtful people examining an issue of critical impor-

tance. People asking questions to learn, rather than to demonize. And I just—what a great opportunity. The panelists were excellent. I think our Members were excellent. We are filling out this record as we work together to build an even better market structures bill that is going to become the law of the land.

And with that, sir, if you have any closing remarks, we are happy to hear them.

Mr. DAVIS. Mr. Chairman, those are great words to end on.

The CHAIRMAN. Under the rules of—by the way, thank you for the UC. There were three Members who got to ask questions because of our flexibility, that wouldn't have otherwise gotten to ask them before votes, which have been called. So again, a good opportunity working together.

Under the Rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witnesses to any questions posed by the Member.

And with that, this hearing is adjourned.

[Whereupon, at 3:38 p.m., the Subcommittee was adjourned.]

**AMERICAN INNOVATION AND THE FUTURE  
OF DIGITAL ASSETS  
(FROM BLUEPRINT TO A FUNCTIONAL FRAMEWORK)**

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**WEDNESDAY, JUNE 4, 2025**

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON AGRICULTURE,  
*Washington, D.C.*

The Committee met, pursuant to call, at 10:00 a.m., in Room 1300, Longworth House Office Building, Hon. Glenn Thompson [Chairman of the Committee] presiding.

Members present: Representatives Thompson, Lucas, Austin Scott of Georgia, Crawford, LaMalfa, Rouzer, Kelly, Bacon, Bost, Johnson, Baird, Mann, Feenstra, Miller of Illinois, Moore, Cammack, Finstad, Rose, Jackson of Texas, De La Cruz, Nunn, Van Orden, Newhouse, Wied, Bresnahan, Messmer, Harris, Taylor, Craig, David Scott of Georgia, Costa, McGovern, Adams, Brown, Davids of Kansas, Salinas, Davis of North Carolina, Tokuda, Budzinski, Sorensen, Vasquez, Jackson of Illinois, Thanedar, McDonald Rivet, Figures, Vindman, Riley, Mannion, McClain Delaney, and Carbajal.

Staff present: Paul Balzano, Josh Beale, John Busovsky, Austin DeBerry, Wick Dudley, Luke Franklin, Sofia Jones, Kyle Upton, John Konya, Suzie Cavalier, Kate Fink, Joshua Lobert, Clark Ogilvie, Emily Pliscott, and Jackson Blodgett.

**OPENING STATEMENT OF HON. GLENN THOMPSON, A  
REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA**

The CHAIRMAN. The Committee will come to order.

We welcome and thank you for joining today's hearing entitled, *American Innovation and the Future of Digital Assets: From Blueprint to a Functional Framework*. After brief opening remarks, Members will receive testimony from our witnesses today, and then the hearing will be open to questions. I will proceed with my opening statement.

Good morning, everyone, and welcome again to our full Committee hearing on the future of digital assets. Thank you to our esteemed panel of witnesses for making the time to be with us here today. This is an important and rare opportunity to discuss this Committee's work to create lasting change and cement America as the global leader in innovation.

For almost a decade, Congress has debated the treatment of digital assets through hearings, bills, and meetings. The House Committee on Agriculture has played a critical role in this work. Since

our first hearing in 2018, our guiding principles have not changed: foster American innovation and bring needed customer protections to digital asset-related activities and intermediaries, but we are not working alone. I want to thank Financial Services Chairman Hill for his leadership and the entire Financial Services Committee for their work with our Committee. We have engaged in a remarkable partnership to examine these issues and propose solutions on a cross-committee bipartisan basis.

Chairman Dusty Johnson has been a tremendous leader in this effort, and I want to thank him for everything he has done. In April, Chairman Johnson and Ranking Member Davis held a hearing that examined the promise digital assets hold for everyday Americans, but they also learned that the promise of digital assets depends on getting the right market structure legislation across the finish line. Last month, Chairman Johnson and Subcommittee Chairman Bryan Steil of Financial Services held a joint roundtable to examine digital assets with both of our committees working together. That roundtable made it clear that current Federal laws and regulations do not provide adequate rules of the road for those who want to engage with these emerging technologies. That is why last week, ten bipartisan Members of the House Agriculture and Financial Services Committees introduced H.R. 3633, Digital Asset Market Clarity Act of 2025, or CLARITY Act of 2025. The CLARITY Act of 2025 is a product of years of vigorous debate, stakeholder feedback, and technical assistance.

I want to thank Chairman Hill for leading our effort and Ranking Member Craig and Ranking Member Davis for joining Chairman Johnson, me, and other colleagues on both sides of the aisle in introducing the CLARITY Act. I am pleased to see the Committee's longstanding tradition of leading together in a bipartisan manner continue. It is incumbent on us to embrace this opportunity and finally bring certainty to the users and developers of this technology. The United States is the beating heart of global finance and innovation. Let me thank the Trump Administration for elevating this issue and recognizing the urgency of action in the digital asset space, and the agencies who offered technical assistance.

Years ago, other nations put pen to paper and created and enacted frameworks seeking to establish themselves as hubs for the development of the digital asset ecosystem. It is time that we do our work here in the United States, too, and implement a framework for trusted, reliable, and useful markets for digital assets. I look forward to the work ahead in getting the CLARITY Act signed into law. Again, thanks to each of our witnesses for their willingness to participate in today's hearing, and I look forward to our discussion.

[The prepared statement of Mr. Thompson follows:]

PREPARED STATEMENT OF HON. GLENN THOMPSON, A REPRESENTATIVE IN CONGRESS  
FROM PENNSYLVANIA

Good morning, and welcome to our full Committee hearing on the future of digital assets. Thank you to our esteemed panel of witnesses for making the time to be with us today. This is an important and rare opportunity to discuss this Committee's work to create lasting change and cement America as the global leader in innovation.

For almost a decade, Congress has debated the treatment of digital assets through hearings, bills, and meetings. The House Committee on Agriculture has played a critical role in this work.

Since our first hearing in 2018, our guiding principles have not changed: foster American innovation and bring needed customer protections to digital asset-related activities and intermediaries. But we are not working alone.

I want to thank Financial Services Chairman Hill for his leadership and the entire Financial Services Committee for their work with our Committee. We've engaged in a remarkable partnership to examine these issues and proposed solutions on a cross-committee, bipartisan basis.

Chairman Dusty Johnson has been a tremendous leader in this effort. I want to thank him for everything he has done. In April, Chairman Johnson and Ranking Member Davis held a hearing that examined the promise digital assets hold for everyday Americans.

But they also learned that the promise of digital assets depends on getting the right market structure legislation across the finish line. Last month, Chairman Johnson and Subcommittee Chairman Brian Steil of Financial Services held a joint roundtable to examine digital assets with both of our committees working together. That roundtable made it clear that current Federal laws and regulations do not provide adequate rules of the road for those who want to engage with these emerging technologies.

That is why last week ten bipartisan Members of the House Agriculture and Financial Services Committees introduced the Digital Asset Market Clarity Act, or CLARITY Act. The CLARITY Act is a product of years of vigorous debate, stakeholder feedback, and technical assistance.

I want to thank Chairman Hill for leading our effort and Ranking Member Craig, and Ranking Member Davis, for joining Chairman Johnson, me, and other colleagues on both sides of the aisle in introducing the CLARITY Act. I am pleased to see the Committee's longstanding tradition of leading together in a bipartisan manner continue.

It is incumbent on us to embrace this opportunity and finally bring certainty to the users and developers of this technology. The United States is the beating heart of global finance and innovation.

Let me thank the Trump Administration for elevating this issue and recognizing the urgency of action in the digital asset space, and the agencies who offered technical assistance.

Years ago, other nations put pen to paper and created and enacted frameworks, seeking to establish themselves as hubs for the development of the digital asset ecosystem.

It is time that we do our work here in the United States too, and implement a framework for trusted, reliable, and useful markets for digital assets.

I look forward to the work ahead in getting the CLARITY Act signed into law. Again, thank you to each of our witnesses for their willingness to participate in today's hearing. I look forward to our discussion.

The CHAIRMAN. And with that, I would now like to welcome the distinguished Ranking Member, the gentlewoman from Minnesota, Ms. Craig, for any opening remarks you would like to give.

**OPENING STATEMENT OF HON. ANGIE CRAIG, A  
REPRESENTATIVE IN CONGRESS FROM MINNESOTA**

Ms. CRAIG. Well, thank you so much, Mr. Chairman. I want to first thank the witnesses for coming to Capitol Hill to share your perspectives with us here this morning. The CLARITY Act is not a perfect bill, and there are improvements that I hope still can be made. However, I was pleased to join with the Chairman and others on this Committee to put forth the legislation because, at the end of the day, we need to bring consumer protection and a market structure to digital assets in our financial system.

Digital assets, including cryptocurrencies, are no longer a novel financial product. They have become and will continue to be integrated with and, in some instances, completely change our financial architecture. I believe it is critical that Congress establish clear

protections for consumers and retail investors, as well as rules of the road for businesses dealing in digital assets. There are common-sense regulations that the industry currently lacks, like requiring the sequestration of consumer funds for broker exchanges, ensuring consumer deposits are not misused, and that retail investors are not left holding the bag when bad actors commit fraud. I hope that these are all things that this body can agree on. If Congress does its job well with this legislation, we will hear more stories of innovation and success, legitimate enterprises will innovate and thrive, and consumers will be able to engage with their services and products without undue financial risk. This technology in these markets is growing rapidly, and Americans are engaging at a rapid pace. We have a responsibility to be part of the solution and to protect them.

But I do want to add that we cannot ignore the fact that the President of the United States is making this debate a lot more difficult. Under current law, Members of Congress, judges and their respective staffs, and other Federal employees may not use non-public information to trade in markets overseen by the CFTC or share nonpublic information with others so they can trade. This bill rightly adds digital commodities to those prohibitions, yet these limits, which apply to us, do not apply to the President, and when we have a President hawking meme coins and his family, that is a very difficult situation for this body.

Our work here is critical to getting this right for retail investors, and I am glad we are here today. I again want to thank the Chairman for holding this hearing and for working with us over the course of the last week to help improve the CLARITY Act. I hope we can build upon this success as the bill moves through the legislative process. Thank you again to our witnesses, and I yield back.

[The prepared statement of Ms. Craig follows:]

PREPARED STATEMENT OF HON. ANGIE CRAIG, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

I want to thank the witnesses for coming to Capitol Hill to share their perspectives with us.

The CLARITY Act is not a perfect bill. And there are improvements that I hope can still be made. However, I was pleased to join with the Chairman and others on this Committee to put forth the legislation because, at the end of the day, we need to bring consumer protection and a market structure to digital assets in our financial system.

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I want to again thank the Chairman for holding this hearing and for working with us to help improve the CLARITY Act. I hope we can build upon this success as the bill moves through the legislative process.

Thank you again to our witnesses, and I yield back.

The CHAIRMAN. I thank the gentlelady. The chair requests that other Members submit their opening statements for the record so the witnesses may begin their testimony to ensure that there is adequate and ample time for questions.

Our first witness today is Dr. Avery Ching, the CEO and Co-Founder of Aptos Labs. Our next witness is the Honorable Michael Piwowar, who is currently the Executive Vice President of the Milken Institute. He is also a former Commissioner and was the acting Chairman of the Securities and Exchange Commission. Our third witness today is Ms. Chelsea Pizzola, a partner at Willkie Farr & Gallagher LLP, and our fourth and final witness today is Mr. Ryne Miller, a partner at Lowenstein Sadler LLP. He also chairs the Commodities, Future, and Derivatives Group, and is the co-chair of the Lowenstein Crypto.

Thank you all for joining us today, and we now look forward to your testimony. You will each have 5 minutes. The timer in front of you will count down to zero, at which point your time has expired. Dr. Ching, please begin when you are ready.

**STATEMENT OF AVERY CHING, PH.D., CHIEF EXECUTIVE OFFICER AND CO-FOUNDER, APTOS LABS, PALO ALTO, CA**

Dr. CHING. Chairman Thompson, Ranking Member Craig, Members of the Committee, thank you for the opportunity to testify today. My name is Avery Ching, and I am the CEO and Co-Founder of Aptos Labs, the team behind the Aptos blockchain. I hold a Ph.D. in supercomputing, and I have spent my career scaling technology at Yahoo, Facebook, and now Aptos. In 2021, I co-founded Aptos Labs to advance the next era of the internet, starting with a global scale and highly-secure blockchain capable of transforming payments, commerce, digital identity, and beyond. Aptos Labs was established and is headquartered in the U.S. We are proud to contribute to American innovation and job creation. Aptos is a high-performance, permission-less, proof-of-stake, Layer 1 blockchain designed to support internet-scale applications and their billions of users. Like the internet, it is open infrastructure that enables anyone to build applications on top of it. Unlike centralized systems, Aptos is maintained by a distributed network of participants, validators, developers and users.

Digital assets or tokens are essential for these decentralized systems to function. They provide incentive, security, and governance mechanisms that keep the network running. For example, APT is the native token of Aptos and is essential to the network's operation and to access the network. It plays three key roles. First, the token is used to secure the network. In order to record transactions on the blockchain, validators are selected based on the amount of

APT tokens they stake or lock up as collateral. This mechanism uses APT to secure the network by preventing attacks from malicious actors. The token is also used to programmatically reward validators for truthfully recording transactions, commonly known as staking. Second, APT holders can propose and vote on protocol operates, ensuring decentralized decision-making. Third, APT is used to pay transaction fees. These fees, averaging fractions of a cent, are required for submitting active activities to the blockchain. Even though they are small, these fees serve as a protective measure against spam and denial-of-service attacks, ensuring the network remains secure and efficient.

Security, decentralization, and utility are what make blockchains like Aptos capable of supporting real-world applications at scale. Today these applications are no longer theoretical. More than 1,000 developers are building on Aptos, and hundreds of live projects are delivering value across industries like finance, commerce, entertainment, and infrastructure. Some of the world's largest financial institutions, including BlackRock, Franklin Templeton, and Apollo, have launched regulated tokenized money markets and other funds on Aptos. Doing so increases transparency, enables real-time peer-to-peer transfers, and boosts operational efficiency. The PACT protocol is a blockchain-based platform for licensed lenders in emerging markets. The platform allows these lenders to originate and service loans on the blockchain, offering transparency and efficiency to lenders and borrowers alike. Over \$1 billion in loans have been issued through PACT, helping small businesses access faster capital, enabling them to buy equipment, open shops, or invest in clean energy.

Aptos also powers new forms of engagement in entertainment and commerce. Projects use Aptos to issue tokenized tickets, cutting out intermediaries, reducing costs, and offering collectible digital ticket stubs that drive loyalty and fan engagement. Aptos has a multiyear collaboration with NBCUniversal to reimagine the fan experience through blockchain-enabled, real-world experiences, loyalty programs, and interactive games. Brands like Jelly Bean use Aptos to link physical products with blockchain-verified records, enabling immersive customer experiences and greater consumer trust through traceable authenticated products and supply chain data.

The use cases we see on Aptos today are only the first step of a sweeping transformation. Just as the internet rewired everyday life, decentralized networks will form the core infrastructure of the coming digital economy, delivering systems that are transparent, interoperable, and designed for innovation, and will define how we engage with the world around us. Tokens serve a vital role in every application built on a blockchain. For blockchain innovation to grow responsibly in the U.S., developers need clear regulatory guidance around token issuance and distributions. We are ready to help realize that mission, and we are grateful for this Committee's leadership in making it possible.

Market structure legislation and well defined, consistent rules around token issuance and distribution will ensure that networks like Aptos can function as designed, U.S. builders can innovate while staying compliant and competitive, and regulators can enforce meaningful consumer protections. The infrastructure is ready.

Regulatory clarity will ensure U.S. leadership in the next era of the internet. We stand ready to work with the Committee in this regard, and I am grateful for the Committee's leadership. I look forward to answering your questions.

[The prepared statement of Dr. Ching follows:]

PREPARED STATEMENT OF AVERY CHING, PH.D., CHIEF EXECUTIVE OFFICER AND CO-FOUNDER, APTOS LABS, PALO ALTO, CA

Chairman Thompson, Ranking Member Craig, distinguished Members of the Committee:

Thank you for the opportunity to appear before you today. My name is Avery Ching and I am the CEO and co-founder of Aptos Labs, the core development team that helped launch the Aptos blockchain. I hold a Ph.D. in high-performance computing and distributed systems and have spent my career scaling emerging technologies at large internet platforms like Yahoo, Facebook, and now Aptos.

In 2021, I co-founded Aptos Labs to advance the next era of the internet-starting with a global-scale, highly secure blockchain, capable of transforming payments, commerce, digital identity, and more. Aptos Labs was established and is headquartered in the U.S. and we're proud to contribute to American innovation and job creation.

#### **About Aptos**

Aptos is a high-performance, permission-less, proof-of-stake Layer 1 blockchain designed to support internet-scale applications and their billions of users. Layer 1 blockchains like Aptos are the base-layer infrastructure for all blockchain-based applications, and at their core, are decentralized networks. Like the internet, they allow anyone to build applications on top of them. Layer 1 blockchains are distinct from other networks in that they are decentralized, meaning there is no single entity recording transactions.

Blockchains and the decentralized applications built on top of them have digital assets or tokens associated with them. These tokens are necessary utilities for decentralized systems to operate.

#### **Token Utility on Aptos**

APT is the native token of the Aptos network and is essential to operate and access the blockchain, serving three core functions. First, the token is used to secure the network. Aptos uses a proof-of-stake consensus mechanism, meaning that in order to record transactions on the blockchain, validators are selected based on the amount of APT tokens they "stake" or lock up as collateral. This mechanism uses APT to help secure the network by preventing attacks by malicious actors. It also allows small token holders to play a role in securing the network. The token is also used by the network to programmatically reward validators for truthfully recording transactions. Second, APT is central to the blockchain's governance and upgradeability. Token holders can propose and vote on improvements or changes to the blockchain itself. Third, APT is used to pay transaction fees. These fees, averaging fractions of a cent on Aptos, are required for submitting activity to the blockchain. Even though they are small, these fees serve as a protective measure against spam and denial-of-service attacks, ensuring the network remains secure and efficient.

#### **Notable Use Cases on Aptos**

Security, decentralization, and utility make blockchains like Aptos capable of supporting real-world applications at scale. Today, those applications are no longer theoretical. More than a thousand developers are building on Aptos and there are hundreds of projects currently delivering value across industries like finance, commerce, and entertainment.

Some of the world's largest regulated financial institutions, including BlackRock, Franklin Templeton, and Apollo have launched tokenized money-market and other types of regulated funds on Aptos. Deploying these funds onto Aptos increases transparency, enables real-time peer-to-peer transfers, and improves operational efficiency for issuers.

The PACT protocol is a blockchain-based platform for licensed lenders. The platform allows these lenders to originate and service loans on the blockchain, offering transparency and efficiency to lenders and borrowers alike. Over \$1 billion in on-chain assets have been issued through PACT, with a major focus on emerging mar-

kets. Small business owners can access capital in days, not weeks—enabling them to buy equipment, open shops, or invest in clean energy.

The Aptos blockchain is also being leveraged to create new types of interactive and programmable experiences across entertainment, gaming, and commerce. Several projects on Aptos are using the blockchain to sell tokenized event tickets, removing costly ticketing intermediaries, lowering prices for fans, and giving them digital collectibles that commemorate their experiences. These digital ticket stubs can also be used for loyalty programs and deeper engagement between artists and their audiences. Aptos Labs recently announced a multi-year collaboration with NBCUniversal to reimagine fan engagement through blockchain-enabled real-world experiences, loyalty programs, rewards, and interactive games. This collaboration has the potential to transform how fans connect with their favorite content, using the Aptos network to power immersive programs and experiences that go far beyond traditional engagement.

Aptos also powers new ways for brands to connect physical products with blockchain-based digital records. JellyBean uses the Aptos blockchain to help brands provide more immersive experiences for fans, comply more easily with regulatory requirements, and increase consumer confidence by embedding physical objects with an immutable record of manufacturing details, supply chain information, and other authenticated product data.

The use cases we see on Aptos today are only the first step in a sweeping transformation. Just as the internet rewired everyday life, decentralized networks will form the core infrastructure of the coming digital economy-delivering systems that are transparent, interoperable, designed for innovation, and will redefine how we engage with the world around us.

#### **Potential Impact of Market Structure Legislation**

Tokens serve a vital role in every application built on a blockchain. For blockchain innovation to expand responsibly in the U.S., developers need clear regulatory guidance around token issuance and distributions. We're ready to help realize that mission, and we're grateful for the Committee's leadership in making it possible.

Market structure legislation and well-defined, consistent rules around token issuance and distribution will ensure that networks like Aptos can function as designed, U.S. builders can innovate while staying compliant and competitive, and regulators can enforce meaningful consumer protections.

The infrastructure is ready. Regulatory clarity will ensure U.S. leadership in the next era of the internet. We stand ready to work with the Committee in this regard.

I look forward to answering your questions.

The CHAIRMAN. Thank you, sir. Dr. Piwowar, please begin when you are ready.

**STATEMENT OF HON. MICHAEL PIWOWAR, Ph.D., EXECUTIVE VICE PRESIDENT, FINANCE PILLAR, MILKEN INSTITUTE; PRESIDENT, ECONOMIC MOBILITY ALLIANCE, MILKEN INSTITUTE; FORMER COMMISSIONER AND ACTING CHAIRMAN, U.S. SECURITIES AND EXCHANGE COMMISSION, FAIRFAX, VA**

Dr. PIWOWAR. Good morning, Chairman Thompson, Ranking Member Craig, and Members of the Committee. Thank you for inviting me to testify today. My name is Mike Piwowar, and I am the Executive Vice President of the Milken Institute's Finance Pillar and the President of our newly-announced Economic Mobility Alliance. The Milken Institute is committed to supporting legislation that will establish a workable framework to bring clarity to the digital asset market. My colleagues and I believe the CLARITY Act crafts a framework that addresses regulatory gaps, jurisdictional boundaries, and pathways for responsible innovation. It reinforces the U.S. financial system's growth, competitiveness, and resilience. As you consider next steps in the legislative process, we look forward to continuing to work on this bipartisan issue with this Committee and the House Financial Services Committee.

Prior to joining the Institute, I served as Commissioner and acting Chairman of the Securities and Exchange Commission. In those roles, I saw firsthand how the U.S. capital markets are the envy of the world. They are the world's deepest, most liquid, and most transparent. They are the most efficient at allocating capital from investors seeking lifetime financial security to job-creating entrepreneurs, like Avery. I saw how the historical success of our capital markets has led to jobs, economic growth and competitiveness, and increased standard of living for everyday Americans. And I saw how much of that success can be attributed to the SEC's long history of focusing on its threefold mission: protecting investors; maintaining fair, orderly and efficient markets; and promoting capital formation. During my tenure, I have worked to incorporate dozens of rulemakings required by the Dodd-Frank Act (Pub. L. 111–203, Dodd-Frank Wall Street Reform and Consumer Protection Act) and the JOBS Act (Pub. L. 112–106, Jumpstart Our Business Startups Act) into that mission. As we look to future innovations in capital-raising activities in digital asset markets, the critical role played by the SEC will become even more important for the United States to maintain our economic competitiveness.

My written testimony focuses on the critical role that the SEC plays in regulating our capital markets and how that expertise can be applied to digital asset markets. I provide examples of how the SEC is already applying their existing authorities to do so. I also discuss how key provisions of the CLARITY Act grant new authorities to the SEC that aligns its mission with the functional application to the digital asset markets. Finally, I offer a few recommendations as you consider next steps in the legislative process.

Chairman Thompson, Ranking Member Craig, and Members of the Committee, thank you for your leadership in finding bipartisan and cross-committee solutions and for building bicameral consensus to create a clear and workable regulatory framework for digital assets in the United States. And thank you for the opportunity to testify on the critical role that the SEC, working with the CFTC, will provide in promulgating, administering, and enforcing regulations that align with its mission and promote innovation. I am happy to answer any questions you may have.

[The prepared statement of Dr. Piwowar follows:]

PREPARED STATEMENT OF HON. MICHAEL PIOWAR, PH.D., EXECUTIVE VICE PRESIDENT, FINANCE PILLAR, MILKEN INSTITUTE; PRESIDENT, ECONOMIC MOBILITY ALLIANCE, MILKEN INSTITUTE; FORMER COMMISSIONER AND ACTING CHAIRMAN, U.S. SECURITIES AND EXCHANGE COMMISSION, FAIRFAX, VA

Good morning. Thank you, Chairman Thompson, Ranking Member Craig, and Members of the Committee, for inviting me to testify today.

My name is Mike Piwowar, and I am the Executive Vice President of the Milken Institute's Finance Pillar and President of our newly announced Economic Mobility Alliance.<sup>1</sup> The Milken Institute is committed to supporting legislation that will build

<sup>1</sup>The Milken Institute is a nonprofit, nonpartisan think tank that promotes evidence-based research that serves as a platform for policymakers, industry practitioners, and community members to come together in catalyzing practical solutions to challenges we face both here in the U.S. and globally. The Milken Institute's Finance Pillar conducts research and constructs programs designed to facilitate the smooth and efficient operation of financial markets—to help ensure that they are fair and available to those who need them when they need them. The Milken Institute's Economic Ability Alliance aims to foster greater collaboration and maximize

a workable regulatory framework to bring clarity and confidence to the digital assets market. The Digital Asset Market Clarity Act of 2025 (“CLARITY Act”) crafts a framework that addresses market structure gaps, jurisdictional boundaries, and pathways for responsible innovation, thereby reinforcing the U.S. financial system’s growth, competitiveness, and resilience. As you consider next steps in the legislative process, we look forward to continuing to work on this bipartisan issue with this Committee and the U.S. House Committee on Financial Services.

Today, my testimony will focus on the critical role that the U.S. Securities and Exchange Commission (“SEC”) plays in the regulation of our capital markets and how that expertise can be applied to digital asset markets. I have had the pleasure of serving as a visiting academic scholar, senior financial economist, commissioner, and acting Chairman of the SEC. I am testifying today on my own behalf.

\* \* \* \* \*

The U.S. capital markets are the envy of the world. Well-regulated competition among stock exchanges, alternative trading systems, and market makers has led to the best market quality environment for publicly traded securities in history. Transaction costs are low, market depth is high, and execution speeds are fast. Well-regulated competition among investment professionals—broker-dealers and investment advisers—has led to the highest standards for investor protections and the lowest costs for trading, diversification, advice, and professional management in history. Companies that issue securities benefit from the liquidity provided by the U.S. public capital markets at a low cost of capital.

The SEC’s role in fostering the historical success of our capital markets and the resulting positive effects on jobs, economic growth, and the lives of everyday Americans cannot be overstated. As we look to future innovations and capital-raising activities in digital asset markets, the critical role played by the SEC will become even more important for the United States to maintain its economic competitiveness.

I commend all the Members of this Committee, working with the U.S. House Committee on Financial Services, as you continue to find bipartisan solutions and build bicameral consensus with the Senate to create a clear and workable regulatory framework for digital assets.

The remainder of my testimony is organized into three sections:

- I. The SEC’s Mission
- II. Applying the SEC’s Mission to Digital Asset Markets
- III. Key Provisions of the CLARITY Act and Additional Recommendations

#### **I. The SEC’s Mission**

The SEC’s threefold mission is to protect investors; maintain fair, orderly, and efficient markets; and promote capital formation. In accordance with the explicit authorities granted by Congress, the SEC accomplishes its mission by promulgating regulations under the Federal securities laws, monitoring compliance with the laws and regulations, and enforcing securities law and regulation violations.

##### *Protecting Investors*

The Federal securities laws and regulations administered by the SEC contain several provisions to protect investors. Statutory and regulatory language, by their nature, are highly legalistic, but they basically boil down to this simple phrase, “Don’t lie, don’t cheat, don’t steal.”

##### **Don’t Lie**

The backbone of the SEC’s investor protection mandate is disclosure. The SEC requires public companies and key market participants such as brokers, dealers, investment advisers, and investment companies to disclose meaningful, accurate, and timely information to the public. Access to this information provides investors with a common pool of basic facts that allows them to determine whether to buy, sell, or hold securities and how to vote their shares.

Unlike merit-based regimes where regulators have the power to deem securities offerings “too risky” or “unsuitable” to be approved, our disclosure system comports well with American traditions of self-reliance, pioneering spirit, and rugged individualism. As former Supreme Court Justice Louis Brandeis famously wrote, “sunlight is said to be the best of disinfectants; electric light the most efficient policeman.”<sup>2</sup>

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our impact, increasing economic mobility for individuals of all backgrounds throughout every stage of their financial lives.

<sup>2</sup>Louis D. Brandeis, “What Publicity Can Do,” *Harper’s Weekly*, Dec. 20, 1913, reprinted in Louis D. Brandeis, *Other People’s Money and How the Bankers Use It*, (Frederick A. Stokes Co., 1914).

By arming investors with information, they can evaluate and make informed investment decisions that support more accurate securities valuations and a more efficient allocation of capital.

#### Don't Cheat

The SEC requires market participants to deal fairly with their customers. For example, brokers must comply with a best-interest standard when they provide recommendations to Main Street investors. This standard requires brokers to act in the best interest of their customers and not place their own interests ahead of the customer's.

Similarly, investment advisers owe a fiduciary duty to their customers when providing investment advice. This duty is comprised of both a duty of care and a duty of loyalty. The duty of care requires an investment adviser to provide investment advice in the best interest of its client, based on the client's objectives, and to provide advice and monitoring over the course of the relationship. The duty of loyalty requires an investment adviser to disclose or address all conflicts of interest between the adviser and its client.

When executing customer orders to buy or sell securities, the SEC allows brokers to choose which trading venue to direct the orders. The broker may direct the order to the exchange where the stock is listed, a different exchange, an alternative trading system, or a market maker.

The SEC also allows brokers to enter into payment for order flow arrangements. Market makers may pay brokers for routing orders to them so long as they fulfill their best execution obligations. A broker must consider multiple factors when seeking the best execution of customers' orders, including the opportunity to get a better price than what is currently quoted (price improvement), the speed of execution, and the likelihood that the trade will be executed.<sup>3</sup>

Payment for order flow arrangements could represent a conflict of interest between their broker and their customer. Brokers may choose to route customer orders to the market maker that offers the highest payment to the broker rather than to the trading venue that offers the best execution for the customer. However, the SEC's best execution requirements mitigate this conflict of interest.

#### Don't Steal

The SEC protects customers' property (securities and cash) held at broker-dealers from being misappropriated (*i.e.*, stolen) through a rigorous financial responsibility framework. Two SEC rules form the foundation of this framework. The SEC's customer protection rule (Rule 15c3-3) is designed to ensure that customer property in the custody of broker-dealers is adequately safeguarded and not used by the broker-dealer in their business. The SEC's uniform net capital rule (Rule 15c3-1) requires all broker-dealers to always have sufficient liquid resources on hand to satisfy customer and creditor claims promptly in the event the firm fails.

#### *Maintaining Fair, Orderly, and Efficient Markets*

The SEC's regulatory framework for the U.S. equity markets is complicated. It reflects a complex system of legal and regulatory decisions made over decades, and the markets have evolved within this framework into a highly interconnected system.

I like to say that the underlying U.S. equity market structure represents the gears that turn the clock of the capital markets.<sup>4</sup> From the moment we get up in the morning until the moment we turn out the lights at night, we rely on clocks to order our days. Yet most people will never open a clock to inspect the gears that make it work, much less comprehend the operation of the complex and interrelated system sitting behind it. In the same way, most Main Street investors and business owners who rely on the capital markets will never dig into the details of market structure. They may never understand the way that SEC regulations on things like tick sizes, the order protection rule, or maker-taker pricing function. But they rely on them every day to raise capital, invest in securities, and save for retirement.

Thus, the details of market structure matter, not just because industry participants, regulators, and academics like to debate them, but because they ensure the fair and orderly operation of our complex financial markets. Ultimately, the efficiency of these markets is what allows our capital markets to drive the economy in ways that benefit all Americans. The SEC recognizes that the appropriate market

<sup>3</sup> See Fast Answers—Best Execution, (May 9, 2011), available at <https://www.sec.gov/fast-answers/answersbestexhtm.html>.

<sup>4</sup> See Remarks at FINRA and Columbia University Market Structure Conference, Speech by Commissioner Michael S. Piowar (Oct. 26, 2017), available at <https://www.sec.gov/newsroom/speeches-statements/speech-piowar-2017-10-26>.

structure for equity markets is not the same as it is for the markets of other securities they oversee, such as corporate bonds, municipal bonds, and security-based swaps.

The SEC also recognizes that changes to existing market structure policy always involve tradeoffs. When the SEC operates at its best, it makes use of two tools to evaluate whether, and if so, how to make changes as the markets evolve.

The first is economic analysis. The lens of economic analysis is well-suited for evaluating tradeoffs. In 2012, the Commission recognized the importance of going beyond statutory obligations and mere quantitative exercises to incorporate comprehensive economic analysis in the rulemaking process by adopting “Current Guidance on Economic Analysis in SEC Rulemaking” (“Current Guidance”).<sup>5</sup>

The second is retrospective reviews of existing rules. The only constant in financial markets is change. Markets and technologies are continually evolving. The SEC recognizes that if we want our capital markets to remain the envy of the world, our regulatory framework needs to evolve with them. Retrospective reviews of market structure and rules by the SEC ensure that they are not outdated, obsolete, or overly burdensome.

#### *Promoting Capital Formation*

The oft-forgotten third part of the SEC’s mission is to promote capital formation. The Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940 require the SEC to “consider, in addition to the protection of investors, whether the action will promote efficiency, competition, and *capital formation*” when it is engaged in rulemaking.<sup>6</sup>

Just as the disclosure of meaningful, accurate, and timely information to the public protects investors, it also improves capital formation. False and misleading information not only can cost investors’ money *ex post*, but it also impedes capital formation by discouraging investment *ex ante*. It contributes to increased volatility in the markets and leads to the inefficient distribution of capital.

However, the SEC must guard against requiring too much information that is burdensome for public companies to provide. Thankfully, the Supreme Court has provided guidance on the legal standard of materiality. Former Supreme Court Justice Thurgood Marshall, writing for a unanimous Supreme Court in the seminal case of *TSC Industries v. Northway*, stated, “[t]he question of materiality, it is universally agreed, is an objective one, involving the significance of an omitted or misrepresented fact to a reasonable investor.”<sup>7</sup> Justice Marshall expressed his concern that an unnecessarily low standard of materiality and the resulting fear of exposure to substantial liability might cause issuers to “simply bury the shareholders in an avalanche of trivial information—a result that is hardly conducive to informed decision making.”<sup>8</sup>

## **II. Applying the SEC’s Mission to Digital Asset Markets**

The SEC’s traditional mission of protecting investors, maintaining fair, orderly, and efficient markets, and promoting capital formation for the capital markets is easily applied to digital asset markets. The CLARITY Act provides the foundational authority for a regulatory framework that aligns the mission with the functional application to these markets.

#### *Protecting Investors*

Digital asset investors should have the same investor protections as securities investors. For too long, U.S. investors in digital assets have not had adequate protections under the Federal securities laws. The SEC’s investor protection framework of “Don’t lie, don’t cheat, don’t steal” fits perfectly with digital asset markets.

The SEC’s disclosure regime can be effectively tailored to digital assets, as it already has been tailored for a diverse range of securities offerings that have evolved over time, such as public companies, open-end mutual funds, closed-end funds, money market funds, exchange traded funds, business development companies, security-based swaps, *etc.* I am pleased to see the CLARITY Act directs the SEC to provide disclosure of specific information unique to digital assets.

The SEC’s fair dealing requirements should be applied to digital asset markets, where appropriate. Brokers and investment advisers should be subject to the same best interest standards and fiduciary duties when providing recommendations or advice or facilitating customer orders for digital assets as they do for securities. In

<sup>5</sup> *Current Guidance on Economic Analysis in SEC Rulemaking*, (Mar. 16, 2012), available at [http://www.sec.gov/divisions/riskfin/rsfi\\_guidance\\_econ\\_analy\\_secrulemaking.pdf](http://www.sec.gov/divisions/riskfin/rsfi_guidance_econ_analy_secrulemaking.pdf).

<sup>6</sup> *See, e.g.*, 15 U.S.C. § 77b(b); 15 U.S.C. § 78c(f); 15 U.S.C. § 80a-3(c)(1)(B) (emphasis added).

<sup>7</sup> 426 U.S. 438, 445 (1976).

<sup>8</sup> *Ibid.*, at 448–49.

other words, digital asset investors working with intermediaries expect to have the same protections.

The SEC's rigorous financial responsibility framework should be applied and adapted to protect customers' digital assets held at broker-dealers. The SEC's customer protection rule and uniform net capital rule can easily be amended to safeguard digital assets held in custody and protect customer claims in the event of the firm's failure.

#### *Maintaining Fair, Orderly, and Efficient Markets*

The appropriate regulatory framework for digital asset market structure will require the SEC to use economic analysis to determine the costs and benefits of various alternatives. The SEC's experience overseeing markets for a diverse set of securities—equities, corporate bonds, municipal bonds, and security-based swaps—will serve it well as it establishes a regulatory framework for the trading of digital assets.

As the digital asset markets evolve, the SEC must keep pace with changes in market conditions and technologies and conduct retrospective reviews of existing rules to determine any necessary changes in regulatory policy.

The CLARITY Act restricts insider sales of digital assets following a primary offering to protect retail investors, in a manner similar to the SEC's insider lockup periods following an initial public offering (IPO). A lockup period helps stabilize the market price following a public offering by preventing a flood of additional sales in the early days of trading.

#### *Promoting Capital Formation*

The SEC's experience striking the right balance of disclosures for investors, giving them just what they need—not too much, not too little—to make informed investment decisions to buy, sell, or hold securities, is exactly what is needed in the digital asset markets. A similar consideration for striking the right balance for issuers of securities—not too burdensome, not too sparse—is also what is needed for capital-raising issuers of digital assets that fall under the SEC's jurisdiction.

The CLARITY Act establishes a critical role for the SEC to provide transparency for new digital commodity issuances. Like primary offerings of public companies, the SEC will ensure that investors have helpful information about primary offerings of digital assets to make informed decisions. The CLARITY Act also recognizes that meaningful information about the digital commodity issuer changes over the maturation of the blockchain system. It provides for a ratcheting down of disclosure requirements as the digital commodity issuer is no longer in control of the blockchain system and eventually no longer a meaningful part of the development process.

#### *Recent SEC Actions Involving Digital Assets*

The day after being designated as Acting Chairman of the SEC on January 20, 2025, Commissioner Mark Uyeda created the SEC's Crypto Task Force, dedicated to developing a comprehensive and clear regulatory framework for crypto assets, and designated Commissioner Hester Peirce to lead it.<sup>9</sup> The Task Force has been busy over the past 4 months. Here are a few examples of their public-facing activities:

- Hosting four public roundtables on the topics of defining security status, tailoring SEC regulation for crypto trading, key considerations for crypto custody, and the intersection of traditional finance (“TradFi”) and decentralized finance (“DeFi”).<sup>10</sup> The Task Force will hold their fifth public roundtable next week on the topic of DeFi and the American Spirit.
- Inviting public comment on 48 detailed questions to help the Task Force work through several crypto regulatory questions on topics such as security status, public offerings, safe harbors from registration, trading, custody, crypto lending, crypto exchange-traded products (ETPs), tokenized securities, and cross-border challenges.<sup>11</sup>
- Meeting with more than 100 organizations and firms involved with digital assets.<sup>12</sup>

The SEC's Crypto Task Force has also been coordinating with other SEC Divisions and Offices, resulting in several notable public releases, including:

<sup>9</sup> See <https://www.sec.gov/newsroom/press-releases/2025-30>.

<sup>10</sup> See <https://www.sec.gov/about/crypto-task-force/crypto-task-force-roundtables>.

<sup>11</sup> See <https://www.sec.gov/newsroom/speeches-statements/peirce-statement-rfi-022125>.

<sup>12</sup> See <https://www.sec.gov/about/crypto-task-force/crypto-task-force-meetings>.

- Acting Chairman Mark Uyeda announced the creation of a new Cyber and Emerging Technologies Unit, consisting of 30 fraud specialists and attorneys, to focus on combating cyber- and crypto-related misconduct and to protect retail investors from bad actors.<sup>13</sup>
- The Office of Investor Education and Advocacy has published several online resources for retail investors considering investments involving crypto assets.<sup>14</sup>
- The Division of Corporation Finance issued staff statements on Meme Coins, Proof-of-Work Mining Activities, Stablecoins, Offerings and Registrations of Securities in the Crypto Asset Markets, and Proof-of-State Protocol Staking Activities.<sup>15</sup>
- The Division of Trading and Markets issued a list of frequently asked questions (FAQs) relating to crypto asset activities and distributed ledger technology.<sup>16</sup>
- The Office of the Chief Accountant rescinded Staff Accounting Bulletin 121 (“SAB 121”).<sup>17</sup>

### III. Key Provisions of the CLARITY Act and Additional Recommendations

The recently introduced CLARITY Act represents a comprehensive, clear, and commonsense approach to establish a regulatory framework for digital assets in the United States. I commend the Members of this Committee and your staff for your diligent work and your engagement with the public.<sup>18</sup>

The CLARITY Act contains several provisions that authorize the SEC to do its part in establishing the U.S. digital asset markets as the best in the world. These include the following:

- Providing clear guidelines to digital commodity issuers and the SEC on which activities fall under SEC jurisdiction.
- Requiring the SEC (and CFTC) to coordinate with foreign regulators to promote consistent international standards for digital asset market regulations and permitting them to enter into information-sharing arrangements to protect investors.
- Prohibiting certain sales by project insiders that would harm retail investors.
- Providing the SEC with anti-fraud enforcement authority over SEC-registered entities involving transactions with stablecoins and digital commodities.
- Providing the SEC with anti-fraud and anti-manipulation enforcement authorities over exempted decentralized finance activities.
- Modernizing books and records requirements for broker-dealers and exchanges by allowing them to use blockchain technology.
- Providing additional flexibility for the SEC to use its exemptive authority.
- Adding “innovation” to the SEC’s mission and establishing offices of innovation within each division of the SEC.
- Requiring the SEC, CFTC, and GAO to conduct studies on decentralized finance, nonfungible tokens (NFTs), market infrastructure improvements needed to facilitate the development of tokenized securities and derivatives, and improving financial literacy for digital asset investors.

As this Committee, working with the U.S. House Committee on Financial Services, considers next steps in the legislative process, I would like to offer a few recommendations to consider.

<sup>13</sup> See <https://www.sec.gov/newsroom/press-releases/2025-42>.

<sup>14</sup> See <https://www.investor.gov/additional-resources/spotlight/crypto-assets>.

<sup>15</sup> See <https://www.sec.gov/newsroom/speeches-statements/staff-statement-meme-coins>, <https://www.sec.gov/newsroom/speeches-statements/statement-certain-proof-work-mining-activities-032025>, <https://www.sec.gov/newsroom/speeches-statements/statement-stablecoins-040425>, <https://www.sec.gov/newsroom/speeches-statements/cf-crypto-securities-041025>, <https://www.sec.gov/newsroom/speeches-statements/statement-certain-protocol-staking-activities-052925>.

<sup>16</sup> See <https://www.sec.gov/rules-regulations/staff-guidance/trading-markets-frequently-asked-questions/frequently-asked-questions-relating-crypto-asset-activities-distributed-ledger-technology>.

<sup>17</sup> See <https://www.sec.gov/rules-regulations/staff-guidance/staff-accounting-bulletins/staff-accounting-bulletin-122>.

<sup>18</sup> I want to specifically thank you for your responsiveness to the comment letter that my colleagues Nicole Valentine and Max DeGregorio and I submitted on the Discussion Draft. See <https://milkeninstitute.org/content-hub/government-affairs/comment-letters/2025-digital-assets-market-structure-discussion-draft>.

*Continue to Rely on SEC and CFTC Member and Staff Expertise*

The CLARITY Act is appropriately detailed and technical. It is clear to me that you have incorporated feedback from the highly capable Members and staff experts at the SEC and CFTC. As you consider next steps in the legislative process, I urge you to continue to rely on their expertise.

The SEC's Crypto Task Force is an all-star team of incredibly smart people, some of whom I know personally and others by reputation.<sup>19</sup> They are increasing their already high level of expertise on digital asset markets by engaging with members of the public through meetings, information requests, and roundtable discussions.<sup>20</sup>

The Crypto Task Force is led by Commissioner Hester Peirce. I can think of no better person to lead this august group. A few years ago, Commissioner Peirce was nicknamed "Crypto Mom" by the crypto community due to her dedication to providing clarity on the application of the Federal securities laws to digital asset markets and for adopting practical and workable policies to protect investors and foster innovation.

I will offer one cautionary example of what happens when SEC staff expertise is not incorporated into highly technical legislation that grants authorities and requires rulemakings under their jurisdiction. Title VII of the 2010 Dodd-Frank Act created a new regulatory framework for over-the-counter derivatives and divided jurisdiction between the CFTC (for "swaps") and the SEC (for "security-based swaps").<sup>21</sup> The legislative language, which was written with substantial input from then-CFTC Chairman Gary Gensler, did not incorporate any feedback from the SEC. As a result, SEC rulemakings were unnecessarily delayed for years, and limited SEC resources were diverted from their core mission to fix problems that could have easily been avoided.

*Maximize Self-Effectuating Statutes and Minimize Joint Rulemaking*

As a former Senate staffer who worked on legislative text and a former regulator who had to implement complex legislation, I think there is both a "science" and an "art" to drafting legislation. The science involves getting the technical definitions and legal language correct, addressing conforming amendments to existing legislation, *etc.* The art of legislation involves identifying alternative language that makes implementation more efficient and effective.

The use of self-effectuating statutes that do not require any rulemaking is a great tool. Wherever possible, I urge the Committee to consider using self-effectuating statutory language. For example, if the Committee decides that the SEC should use its exemptive authority on a particular issue, one way to draft the language is to say, "The SEC shall exempt XYZ . . ." But that would require the SEC to act—*i.e.*, issue a rule, regulation, or order—and use scarce resources that could be better deployed elsewhere. A better way to draft the language would be to say, "XYZ is exempt . . ." The language would be effective upon enactment, and the SEC would not need to do any additional work.

Title I of the Jumpstart Our Business Startups Act ("JOBS Act") of 2012 provides an excellent example of self-effectuating language.<sup>22</sup> Title I created a new "emerging growth company" ("EGC") designation for smaller companies going public and provided them with temporary scaled disclosures (a regulatory "on-ramp") and other benefits. It directly amended the Securities Act of 1933 and the Securities Exchange Act of 1934 and did not require any SEC rulemaking. Academic research finds that Title I immediately increased IPO volumes.<sup>23</sup>

*Provide New Statutory Clarity on Investment Contracts*

The CLARITY Act creates a new definition of "investment contract assets" to exclude digital commodities sold pursuant to an investment contract from being considered investment contracts themselves. I believe this is a clever way to provide much-needed clarity in the context of digital commodities.

The bill carefully excludes only specific types of investment contracts from the definition of "digital commodity," recognizing that the definition of "investment contract" in the Securities Act of 1933 and the Securities Exchange Act of 1934 is very

<sup>19</sup> While I am not as familiar with many of the CFTC staff working on these issues, I have always been impressed with their expertise on issues under their jurisdiction.

<sup>20</sup> See <https://www.sec.gov/about/crypto-task-force>.

<sup>21</sup> Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111–203 (2010).

<sup>22</sup> Jumpstart Our Business Startups Act, Pub. L. No. 112–106 (2012).

<sup>23</sup> See, e.g., *The JOBS Act and IPO Volume: Evidence that Disclosure Costs Affect the IPO Decision*, Michael Dambra, Laura Field, and Matthew Gustafson, *JOURNAL OF FINANCIAL ECONOMICS*, Vol. 116, No. 1 (2015).

broad.<sup>24</sup> I suggest this Committee work with the U.S. House Committee on Financial Services to go one step further and narrow the statutory definition of “investment contract” itself.

When the SEC has been faced with the determination of whether an investment contract exists under certain facts and circumstances, it has had to rely on prior Court cases. The most well-known example is the “*Howey Test*” from the 1946 Supreme Court case *SEC v. W.J. Howey Co.*<sup>25</sup> The Supreme Court’s opinion states that the *Howey Test* embodies a “flexible rather than a static principle.”<sup>26</sup> While a flexible approach has the benefit of being adaptable to new situations, decades of regulatory experience and several subsequent court cases show that it would be helpful if Congress could narrow the statutory definition of investment contract.

\* \* \* \* \*

Thank you for moving forward on the critical issue of providing a clear and workable regulatory framework for digital asset markets in the United States. And thank you for the opportunity to testify on the critical role that the SEC, working with the CFTC, will provide in promulgating, administering, and enforcing regulations that protect investors, establish and maintain market integrity, and foster responsible innovation. I am happy to answer any questions you may have.

The CHAIRMAN. Dr. Piwowar, thank you so much. Mr. Miller, please begin when you are ready.

**STATEMENT OF RYNE MILLER, J.D., PARTNER, LOWENSTEIN SANDLER LLP; CHAIR, LOWENSTEIN CRYPTO; CO-CHAIR, COMMODITIES, FUTURES, DERIVATIVES GROUP, NEW YORK, NY**

Mr. MILLER. Thank you. Chairman Thompson, Ranking Member Craig, and Members of the Committee, it is a privilege and honor to have been invited to appear at this hearing. Thank you. My name is Ryne Miller, and while I grew up in Oklahoma, I have been a financial markets lawyer in New York City for the past 15 years. I am here to offer my voice, my support on a single message: the time to act on digital asset market structure legislation is now. I do think that the time has come, and we cannot afford further delay. My perspective on this comes from my experience in the financial markets, and I want to share some of that with the Committee.

I have spent my career at the intersection of market regulation, innovation, and risk. I was fortunate to have worked at the CFTC during the Dodd-Frank rule-writing years, which is familiar to many on this Committee, and since then, I have advised financial institutions, exchanges, and crypto firms on financial market regulation. As many of you might know, I also lived through the collapse of the FTX Global Cryptocurrency Exchange. I was the FTX U.S. General Counsel for a little more than 1 year.

I want to start with a few observations about my FTX experience. The failure of FTX is often talked about as a run on the bank or a liquidity crisis, and this Committee knows well that is not what happened. FTX was not a bank. It was a cryptocurrency exchange charged with protecting customer assets. The FTX failure was the result of a concealed fraud performed by the most senior members of the FTX founding team. As my written statement reflects in greater detail, I first learned in early November 2022 that approximately \$8 billion in customer assets on the FTX global plat-

<sup>24</sup> See 15 U.S.C. §§ 77b–77c.

<sup>25</sup> 328 U.S. 293, 301 (1946).

<sup>26</sup> 328 U.S. at 299 (emphasis added).

form were simply gone. A small group of insiders at the global FTX entity had misappropriated billions of dollars in customer funds for personal use. That is not okay, and part of the goal of the legislation we are considering now is to address this issue. After learning of the revelation and the customer asset shortfall, I and a few others worked around the clock for 4 days to stop the ongoing fraud, to mitigate the bleeding, to preserve critical records, and ultimately prepare for insolvency filings.

The critical point of this story is this: had proper Federal market structure regulation been in place, the kind contemplated in the bill before you, offshore companies would have come to the United States and centered their businesses here. FTX's story could have ended very differently. Customer asset segregation, regular examination, governance requirements and auditing would have been in place, and they would have provided guardrails to prevent the fraud. And that is why I am here today, not just to tell the FTX story and to recount the past, but to support your work to shape the future. Again, I do not think we can afford more delay.

The Committee's draft legislation, the CLARITY Act, is thoughtful, it is balanced, it is functional, and, importantly, it is ready. It creates a path for registration, it draws a sensible line between the SEC and the CFTC, and it prompts coordination where appropriate. It protects investors while enabling responsible innovation, and it gives regulators—and this is important—the tools they need to move from enforcement to proactive supervision and regulation. Critically, it also ends the state-by-state regulatory patchwork that is pushing innovators offshore. A Federal framework will restore confidence and competitiveness in the U.S. digital asset markets. Regulation enables innovation, and when market structure works, it creates the foundation of trust that has allowed the frequent statement to be made about America having the most deep, liquid, and resilient capital markets in the world. Crypto is capital, and if we want the digital asset markets to grow here, adopting legislation is a must-do.

Thank you again for the opportunity to appear today. I appreciate the work this Committee has done, and I stand ready to answer any questions.

[The prepared statement of Mr. Miller follows:]

PREPARED STATEMENT OF RYNE MILLER, J.D., PARTNER, LOWENSTEIN SANDLER LLP;  
CHAIR, LOWENSTEIN CRYPTO; CO-CHAIR, COMMODITIES, FUTURES, DERIVATIVES  
GROUP, NEW YORK, NY

Chairman Thompson, Ranking Member Craig, and Members of the Committee:

Thank you for the opportunity to testify today. It is a privilege to appear before you to discuss the future of digital assets in the United States. Adopting Federal market structure legislation for digital assets is critical to enabling responsible innovation and economic growth in the United States, and I commend this Committee for its leadership and continued diligence in addressing one of the most consequential markets policy questions of our time—how to regulate a newly emerged asset class that is poised to revolutionize the operations and functions of financial markets, globally. I look forward to using my voice, developed over a career as a financial markets and exchange professional, to support the swift adoption of Federal market structure legislation for digital asset markets.

I have seen the damage and fallout that can occur when market structure regulation is non-existent or incomplete, and in contrast, I have also seen how innovation and markets can flourish when regulators have a clear legislative mandate to implement a properly calibrated and principles-based markets regulatory program.

The perspective I seek to offer the Committee is shaped by a career of direct experience at the intersection of technology, regulation, and market infrastructure. Many on the Committee know that I previously served as General Counsel of FTX US, the U.S. based digital asset and derivatives exchange that was an affiliated entity of the global FTX group. I was in this role for the U.S. business for just over a year, an intense time period that included a hyper growth phase, a shocking discovery of fraud perpetrated by the FTX international founders, and the much discussed fallout and subsequent insolvency filing of the global FTX group. Both before and after that experience, I have been a long-time commodities and derivatives partner at leading law firms advising clients on financial markets regulation. Early in my career, I had the privilege of serving at the U.S. Commodity Futures Trading Commission in Washington D.C. throughout the pivotal Dodd-Frank rule writing years, first as a staff attorney in the CFTC's Division of Market Oversight and then as counsel to the then CFTC Chairman.<sup>1</sup> My testimony today draws on all of these experiences, and the views I express are my own.

### **The FTX Story—What Happened**

Let me first share my perspective on the FTX story. I will be brief, clear, and direct, but I do believe it is important for me to address this topic, for this Committee, in the context of this hearing.

Due to a series of fraudulent schemes and actions undertaken by the FTX international founding team, through which they improperly accessed and used customer assets (a series of misconduct which was concealed from and first learned about by myself and other key employees during the week starting November 7, 2022), the global FTX group filed for bankruptcy on Friday, November 11, 2022. Assets then on hand were insufficient, by an amount of approximately \$8 billion, to meet the withdrawal requests of customers who wanted their assets back. The shortfall, and the fraud behind it, was a shocking revelation to me, to customers and investors, to employees, and to regulators.

To add some color from my lived experience—on Monday evening November 7, 2022, I received a phone call from Sam Bankman-Fried's father, Professor Joseph Bankman (a close and frequent advisor of the company), and I also received a series of subsequent messages over the course of that evening from Sam himself. Through those communications, I was informed that the FTX international business was meaningfully short of customer assets. Professor Bankman and Sam were reaching out to me given my U.S. market presence and background. I was ostensibly being invited into an emergency fundraising effort to identify backers to “fill the hole”—a fundraising effort that ultimately became hopeless given that the underlying shortfall was affiliated with the clear wrongdoing of the founding team, as I would soon learn.

By the next morning, after a never-ending night during which more detailed information became available and I was briefed further into the situation by other members of the global FTX business, the facts surrounding the wrongdoing behind the shortfall and its approximately \$8 billion size started becoming clearer. And so, for the 4 sleepless days and nights that followed, I, along with several other devoted and talented remaining FTX employees, did exactly what you would expect trained professionals to do in the face of discovering an unraveling and quickly worsening crisis. The remaining engaged core worked to implement a “crisis management 101” playbook, working to swiftly prepare for entering into insolvency proceedings and to prompt a series of actions to end the active fraud and pave the way for the preservation of critical records and the eventual recovery of the billions of dollars in value now being returned to customers.

What I have said is what happened, and I am deeply proud of the rapid thinking work done by a dedicated group of then-remaining employees to institute basic risk management practices, in the face of a crisis, that stopped the bleeding and paved the way for a path to what now appears to be a meaningful recovery (“meaningful” particularly when compared to the perceived possibility of a \$0 recovery outcome that presented itself during that week in November 2022).

In some commentary that followed the insolvency filings, there was a tendency to describe the FTX international fallout as a “run on the bank” or a “temporal liquidity crisis.” Unfortunately, and this cannot be overstated, FTX was NOT a bank, and FTX had no legal or operational basis that justified the occurrence of a customer asset driven liquidity crisis. The crisis occurred because customer assets were

<sup>1</sup>I want to take this moment to also specifically thank a few of my CFTC mentors, each of whom expended material effort to introduce me to and educate me early in my career under the U.S. commodities and derivatives laws. To name a few CFTC alumni, each dedicated public servants: David Van Wagner, Don Heitman, Susan Nathan, and Ken Raisler.

stolen by the founding team and used for personal trading, expenditures, and investments. As a consequence, customer assets were unavailable to satisfy customer withdrawal requests. It was not a run on the bank, and it was not a liquidity crisis. The assets were gone, and it was insolvency due to clear and deceptive wrongdoing perpetrated by a small group of actors.

The courts have now done their job to consider and determine the consequences of the illegal conduct that led to this outcome, and the bankruptcy process has done its job to pick up the pieces and bring back for the benefit of customers the value that could be identified, preserved, and reclaimed. Regardless of the final economic outcome, this fraud was an egregious breach of trust, a significant moral lapse, and it came at the expense of massive amounts of pain and stress for the customers of FTX, amongst many others.

And so now we come back to the role of this Committee, “what could have been done”, and “what can be done to avoid a next time.” And I look very much forward to having that discussion today.

#### **Moving Forward; Time to Act**

Had the regulatory structure provided for in the bill currently being considered by this Committee and ultimately Congress applied to FTX, the story I just told would almost certainly have a much different ending. Examinations, governance requirements, audits, reporting, recordkeeping, and customer asset segregation requirements directly address the shortfalls that have allowed various digital asset industry failures and thefts to occur. And yet we are now at least a decade into the meaningful emergence of trading activity around the new global asset class of digital assets, and still the U.S. has made essentially no *black-ink* progress in bringing real protections to digital asset markets under an appropriately calibrated Federal market structure regime. To be clear, regulators have not been idle. There is an abundance of thoughtful and diligent writings from regulators that evaluate these markets, and Congress has now considered a multitude of draft texts for new laws to apply to these markets. Now we have reached the time to act, and I again commend this Committee in its efforts to see the swift adoption of this legislation.

The remainder of this written statement further underscores the important value that legislation and regulation brings to digital asset markets, and it continues to encourage the adoption of digital asset market structure legislation as soon as is practicable.<sup>2</sup>

#### **Market Regulation as the Foundation of Trust**

When market structure regulation works, investors transact confidently with the knowledge that pricing is fair and transparent and that trading venues and intermediaries are subject to compliance obligations, examinations, and clear standards to ensure asset security and market integrity. But when market structure regulation fails (or worse, never arrives), markets lose confidence and customers, investors, and other constituents lose much more.

In crypto, we have now lived through at least a few cycles of the emergence and hope of real technological innovation followed by the intense collapse of several poorly governed entities. I believe it is essential for lawmakers and regulators to end the unsustainable silence of the legislative pen on these matters and to act quickly to pass market structure legislation. If my testimony holds value today, it will be because it is heard as a forceful call for prompt action. As a reminder, market structure legislation is the requisite first step, before the accompanying regulations and agency guidance that follows can begin as its own body of important and critical work. On the legislative side, I am confident in suggesting to this Committee that the Digital Asset Market Clarity (CLARITY) Act is good to go; it is ready. A decade of legislative inaction in pursuit of perfection has already wrought its damage. We have the present opportunity to take the bold step of adopting legislative text, starting the timeline for the next phase of work for our regulatory agencies to interpret and apply these new laws, learning from markets and market participants as they go. The alternative, which is to continue watching and waiting and engaging in unending and valueless re-writing exercises, will only further embolden the riskiest and least honest acting founders to continue targeting and attracting U.S. users looking to access these globally emergent financial markets.

<sup>2</sup>There are of course important existing tools that both the CFTC and SEC can and perhaps should begin to use to address market structure regulation for digital asset markets. The tools that could be wielded by an innovative and focused regulator include exemptive authorities, guidance, and inter-agency cooperation, amongst others. In fact, in the absence of legislation these tools will become increasingly important and necessary to use. However, only legislation can bring about the clear and unambiguous mandate of authority that is needed to achieve consistent and durable progress.

In my experience, the CFTC's principles-based approach to market oversight, which is designed for derivatives markets but readily transferable to spot markets, has proven resilient in enabling innovation while protecting market integrity, and I again commend this Committee for seeking to allocate to the CFTC a primary and principal role in digital asset regulation. In parallel, the SEC is deeply experienced in customer protection, capital formation, and disclosure based regulatory programs, and in cooperation with the CFTC, I believe they offer an equally important body of experience and judgement to bring to bear in regulating these markets. Where digital asset exchanges and intermediaries operate under U.S. regulatory regimes, their conduct and risk management efforts are shaped by an interlocking framework: customer asset segregation, audits and examinations, conflicts governance, capital and liquidity requirements, disclosure, and surveillance of market abuse.

These obligations are not academic. They are operational, continual, and essential. Customer protection begins with fund segregation and extends to ongoing solvency, liquidity monitoring, and governance of risk exposures. A platform cannot credibly hold customer assets or facilitate orderly trading without building around these foundations.

Moreover, these frameworks are not standalone checklists. They function as interconnected systems of internal controls, external validation, and regulatory supervision that jointly reduce the risk of catastrophic failure. In that sense, regulation is not a constraint on innovation. It is what makes responsible innovation possible and sustainable.

#### **Regulated Exchanges are Better Exchanges**

Running a crypto exchange in the United States is hard, and it should be. Exchanges handle customer funds, supervise risk engines, respond to market volatility, monitor for potential fraud, and manage cross-border cybersecurity threats. All of this while under the scrutiny of auditors, regulators, and the public.

Regulatory expectations shape daily operations: onboarding procedures, surveillance protocols, compliance operations, capital adequacy planning, governance of hot and cold wallets, operational risk reviews, independent audits. The process is demanding, continuous, and at times inflexible, but it is necessary.

When done properly, regulation acts as a guard rail and guide. It forces the kind of institutional maturity that market forces alone may not demand, especially in high-growth environments. It also creates an ecosystem where trustworthy players can distinguish themselves.

#### **Why This Bill Matters**

The draft legislation under discussion offers a thoughtful and coherent framework for digital asset markets. It recognizes that digital assets are not monolithic, and it seeks to allocate regulatory jurisdiction between the CFTC and SEC in a manner that reflects how these markets actually operate.

Importantly, it would:

- Establish baseline registration and compliance requirements for digital asset trading platforms,
- Create clarity for the classification of digital assets,
- Preserve investor protection while accommodating technological differences, and
- Empower the CFTC to oversee spot digital commodities markets and, in certain instances, oversee multi-asset class markets in coordination with the SEC.

For the first time, market participants would have a pathway to registration that fits the structure of digital asset trading. This is critical because forcing crypto markets into legacy frameworks built for other asset classes risks both over-regulation and under-enforcement.

This bill instead takes a functional approach. It preserves core principles, including customer protection, fair dealing, and transparency, while tailoring implementation to the nature of decentralized technology and blockchain-based assets. That balance is hard to strike, and the drafters deserve credit for engaging directly with market realities.

Adopting this bill will answer many of the foundational questions that have thus far remained unaddressed. It will allow regulators to move from enforcement-first policymaking to proactive rulemaking. It will give responsible actors a path forward. And it will create the legal infrastructure to support U.S. leadership in tokenized markets.

#### **Endorsing Coordination Between the CFTC and SEC**

The line between commodities and transactions that implicate the securities laws in crypto markets is not always bright. But regulatory coordination should not re-

quire metaphysical certainty. Market participants need workable rules. Investors need protection. And the public needs confidence that regulators are rowing in the same direction.

This bill contemplates joint rulemaking, coordinated oversight, and clear lines of accountability. That is not only a legal necessity, but also a practical one. Neither agency can oversee the entirety of this space alone. But together, they can offer a credible framework that addresses market risks while enabling innovation.

Importantly however, coordination does not mean duplication. It means defining roles based on asset function and market behavior. I want to encourage each of the CFTC and the SEC to actively coordinate to ensure that markets are regulated in a clear, predictable and not unnecessarily redundant way. This bill recognizes that complexity and gives agencies the tools to manage it. As longtime industry observers, we can all acknowledge the friction that can occur when directing two Federal agencies to “coordinate and harmonize” when done without including reasonably observable boundaries and instructions for that coordination. I encourage the Committee to finalize a bill that provides this clear instruction to the agencies and that includes meaningful oversight mechanisms to permit the Committee to monitor (and, if needed, prompt) that regulatory coordination throughout the implementation process.

#### **Federal Preemption and the Need for National Consistency**

In the absence of Federal action, states have filled the vacuum for digital asset markets. The result is a fragmented patchwork of licensing regimes that are difficult to navigate and nearly impossible to harmonize. The *status quo* favors incumbents, punishes compliance, and undermines U.S. competitiveness.

The burden of navigating dozens of separate licensing frameworks, with overlapping and occasionally contradictory requirements, falls heaviest on early-stage projects and smaller intermediaries. These are precisely the actors we should be encouraging to build domestically and not driving offshore.

A Federal framework, especially one that preempts duplicative state regulation, would level the playing field and bring clarity to innovators and investors alike. It would allow regulators to concentrate expertise and resources where they are most needed. And it would send a signal that the United States intends to lead in the next generation of financial infrastructure.

#### **Why Digital Assets Matter**

For all the noise and speculation, I want to conclude my written statement by affirmatively acknowledging that there is real substance in this space. I am a markets lawyer and professional, and I know that markets exist when there is a market. Digital assets represent trillions of dollars in real value, hundreds of billions of dollars in monthly transaction volumes (between spot and derivative markets), and millions of users. Studies have demonstrated that approximately 55 million U.S. persons hold cryptocurrencies. Developers are building decentralized financial systems with the potential to expand access to capital, reduce transaction costs, and create programmable financial products. Enterprises are exploring tokenized treasuries, real-time settlement systems, and on-chain asset management. These are not hypothetical ideas; each statement reflects live market experiments, and they are happening now.

And they are happening globally. Other jurisdictions (*e.g.*, Singapore, Dubai, Abu Dhabi, the UK, the EU) are implementing comprehensive digital asset frameworks. The U.S. cannot afford to remain on the sidelines. Leadership in financial infrastructure has long been a pillar of American economic strength. This is the next front.

But innovation alone is not enough. It must be channeled through a framework that promotes fairness, transparency, and market integrity. That is what this legislation begins to do.

#### **Conclusion: A Clear Call to Action**

I appreciate the work that this Committee has done to complete the difficult task of translating complex market dynamics into a functional regulatory framework, learning from the lessons of this market’s history and failings and also carrying over the best of our collective experiences in regulating existing markets. This was not easy work, but it was essential. In digital assets, as in every market, regulation matters. The next step is Federal market structure legislation, and I again suggest that it is ready to be adopted, now.

Thank you for the opportunity to testify. I look forward to your questions.

The CHAIRMAN. Well, thank you, Mr. Miller. Ms. Pizzola, please proceed when you are ready.

**STATEMENT OF CHELSEA PIZZOLA, J.D., PARTNER, WILLKIE  
FARR & GALLAGHER LLP, CHARLOTTE, NC**

Ms. PIZZOLA. Thank you, Mr. Chairman. Chairman Thompson, Ranking Member Craig, Members of the Committee, it is an honor to testify before you today. Thank you for the opportunity to discuss the current draft of the CLARITY Act of 2025.

I previously served as the CFTC's Deputy Chief of Staff and Counsel to former Chairman Heath Tarbert. I have also served as head regulatory counsel to Cumberland DRW, a large participant in digital asset, spot, and derivatives markets. Currently, as a partner at the law firm, Willkie Farr & Gallagher, I advise clients on CFTC and SEC regulatory matters, including matters involving digital assets. In these roles, I have seen firsthand the confusion, misallocation of resources, and barriers to innovation and competition caused by the lack of jurisdictional clarity regarding digital assets in the United States. Legislation is needed to remove permanently any jurisdictional ambiguity. As Mr. Miller said, the CLARITY Act's allocation of jurisdiction between the SEC and the CFTC along the line between primary and secondary markets is appropriately tailored to each agency's specialized expertise, experience, and statutory remit.

The SEC is well suited to regulate primary market transactions in digital assets, which are often viewed as similar to capital raises involving traditional securities that have long been under the SEC's remit. Equally, the CFTC is the natural regulator for secondary market digital asset transactions, which are widely viewed, including by multiple Federal courts, as transactions in commodities. Although the CFTC currently does not have plenary regulatory authority over spot commodity markets, it has antifraud and anti-manipulation authority, and the Commission intently monitors and surveils spot commodity markets, given the close relationship between derivatives contracts and their underlying commodities. In short, the CFTC has spent the past 50 years dedicated to understanding and improving commodities markets and markets for commercial risk transfer, including in the exercise of its exclusive regulatory authority over options on futures and swaps referencing commodities.

The CFTC has also had an extensive history of engagement with digital asset markets through the authorities that I have just described. Since 2015, it has aggressively and successfully pursued fraud and manipulation in spot and derivatives markets, as well as failure-to-register cases involving digital asset derivatives. It worked closely with exchanges and their clearinghouses to prepare for the first Bitcoin futures listings in 2017, and it did the same with Ether futures listings in 2019. Today these markets are deep, liquid, and transparent, and are well policed by the CFTC for fraud, manipulation, and trade practice violations. This record on digital assets is consistent with the CFTC's 50 year tenure as a preeminent markets regulator. Today, a total of approximately 40 million futures contracts are traded on average each day on CME Group and ICE derivatives exchanges alone, and in the OTC derivatives market, total U.S.-reported notional traded in interest rate swaps alone was approximately \$112.7 trillion during the third quarter of 2024.

CFTC-regulated markets and market utilities have steadily performed their risk transfer and shock absorption functions through periods of extreme volatility, such as negative oil pricing and other shocks, at the onset of the COVID-19 pandemic. Finally, the CFTC is also well suited for its responsibilities under the CLARITY Act by virtue of its statutory core principles-based regulatory framework for exchanges and its self-certification process for new product listings, which were specifically designed to promote responsible innovation and fair competition. The statutory core principles are outcomes-based requirements, and exchanges are given reasonable discretion in determining how to comply. This has prevented the kind of rigid one-size-fits-all regulatory environment that previously stifled innovation and competition in CFTC-regulated markets prior to the Commodity Futures Modernization Act of 2000 (Pub. L. 106-554, Making consolidated appropriations for the fiscal year ending September 30, 2001, and for other purposes, Appendix E—H.R. 5660).

The self-certification listing process has supported innovation and competition in CFTC-regulated markets, reducing the time to market for new products from years to days. These flexible, adaptable regulatory approaches are particularly well suited for the novel and constantly-evolving nature of digital asset markets. The CLARITY Act appropriately includes these features in its regulatory regime for digital commodity exchanges, and there is no better agency to implement such a regulatory framework in furtherance of responsible innovation than the one that has done so for the last 25 years, allowing for the markets under its jurisdiction to become the largest and the most vibrant and robust of their kind in the world.

Finally, just returning to allocation of regulatory authority between the CFTC and the SEC, *de minimis* registration exemptions in areas of overlapping jurisdiction and interagency coordination and deference are valuable tools to reduce regulatory burden and promote regulatory efficiency. But beyond these limited exemptions and targeted deference, holistic CFTC oversight of the secondary digital commodity markets is necessary to avoid fragmentation in market regulation, monitoring, and surveillance. Yet ultimately, exactly how the line is drawn between CFTC and SEC jurisdiction is less important than ensuring that a clear, durable line is drawn through lasting legislation. We should not allow inaction to perpetuate an environment of regulatory uncertainty. Digital asset entrepreneurs and the American people deserve better. Thank you.

[The prepared statement of Ms. Pizzola follows:]

PREPARED STATEMENT OF CHELSEA PIZZOLA, J.D., PARTNER, WILLKIE FARR & GALLAGHER LLP, CHARLOTTE, NC

Chairman Thompson, Ranking Member Craig, Members of the Committee:

It is an honor to testify before you today. Thank you for the opportunity to discuss the current draft of the CLARITY Act of 2025 and the U.S. Commodity Futures Trading Commission's ("CFTC") role in digital asset regulation.

I have previously had the privilege of serving as the CFTC's Deputy Chief of Staff and Counsel to former CFTC Chairman Heath Tarbert, as well as head regulatory counsel to Cumberland DRW, a large participant in digital asset spot and derivatives markets. Currently, as a partner at the law firm Willkie Farr & Gallagher,

I advise clients on CFTC and U.S. Securities and Exchange Commission (“SEC”) regulatory matters, including matters involving digital assets.<sup>1</sup>

In these roles, I have seen firsthand the confusion, misallocation of resources, and barriers to innovation and competition caused by the lack of jurisdictional clarity with respect to digital assets. Markets work best when there are clear rules of the road. In the United States today, digital asset market participants cannot even be certain which road they are on at any given time. In the race for global competitiveness in the digital asset space, we have regrettably lost years to regulatory uncertainty and at times outright hostility toward digital assets. This environment has largely driven digital asset projects and markets offshore and impeded participation by regulated institutions.

A clear demarcation of the boundaries of the SEC’s jurisdiction over digital asset transactions, and workable rules for transactions within those boundaries, are critical to getting the United States back on track as a leader in the digital assets arena. Under new agency leadership, the SEC’s recently formed Crypto Task Force is making admirable strides in this direction,<sup>2</sup> and I understand that Commission-level action is in progress.<sup>3</sup>

But more is needed. Any SEC action acknowledging the limitations of its jurisdiction can be reversed under a future Administration. The previous SEC Chair claimed jurisdiction over all transactions in “[e]verything other than Bitcoin”<sup>4</sup> and pursued an aggressive enforcement and regulatory campaign to make good on that claim. A future Chair could do the same. Legislation must remove any jurisdictional ambiguity to ensure this cannot happen again.

In this statement, I will (1) summarize relevant aspects of the draft legislation at a high level; (2) explain why I support the bill’s allocation of regulatory responsibility between the CFTC and the SEC; and (3) highlight the importance of such a clear legislative division of authority between the agencies and robust coordination in any inevitable areas of overlapping authority.

### 1. Primary- and Secondary-Market Jurisdiction

The bill divides jurisdiction between the SEC and the CFTC along the line between primary and secondary markets. It implies that the offer or sale of a “digital commodity” by the issuer may constitute the offer or sale of an investment contract subject to the securities registration requirements under Section 5 of the Securities Act of 1933, and it creates a conditional registration exemption under new Section 4(a)(8) for such offers and sales. It cuts off the “investment contract” chain there, however, by providing that (1) a digital commodity transferred pursuant to an investment contract is not itself an investment contract, and (2) offers and sales of a digital commodity by a person *other than* the issuer (or an agent or underwriter thereof) likewise are not offers or sales of investment contracts.

Thus, generally, primary-market sales of a digital commodity could fall under the securities laws, while secondary-market sales would not. A trading facility for spot digital commodity transactions would be required to register with the CFTC as a digital commodity exchange (“DCE”) and subject to enumerated core principles and listing standards. Under Section 202 of the bill, an intermediary in an issuer offer or sale conducted in reliance on Section 4(a)(8) must register with the SEC as a broker-dealer, whereas a broker or dealer engaged in secondary-market digital commodity transactions and certain related activities must register with the CFTC as a digital commodity broker (“DCB”) or digital commodity dealer (“DCD”) and, together with DCEs and DCBs, “Digital Commodity Entities”, respectively.

This jurisdictional division of digital asset transactions provides much-needed regulatory stability and certainty. Provision (1) above codifies existing case law distinguishing digital assets themselves from the manner in which they are offered and sold,<sup>5</sup> while provision (2) resolves vexing conflicts in case law related to secondary-

<sup>1</sup>I appear before you today in my personal capacity; the views I express here are my own. Thanks are due to Hon. J. Christopher Giancarlo and Matthew Goldberg of Willkie Farr & Gallagher for their contributions to this statement.

<sup>2</sup>See, e.g., Hon. Hester M. Peirce, Commissioner, SEC, *New Paradigm: Remarks at SEC Speaks* (May 19, 2025), available at <https://www.sec.gov/newsroom/speeches-statements/peirce-remarks-sec-speaks-051925-new-paradigm-remarks-sec-speaks>.

<sup>3</sup>See Hon. Paul S. Atkins, Chairman, SEC, *Keynote Address at the Crypto Task Force Roundtable on Tokenization* (May 12, 2025), available at <https://www.sec.gov/newsroom/speeches-statements/atkins-remarks-crypto-roundtable-tokenization-051225>.

<sup>4</sup>Ankush Khardori, *Can Gary Gensler Survive Crypto Winter?: D.C.’s top financial cop on Bankman-Fried blowback*, N.Y. MAG. (Feb. 23, 2023), <https://nymag.com/intelligencer/2023/02/gary-gensler-on-meeting-with-sbf-and-his-crypto-crackdown.html>.

<sup>5</sup>Every court to consider the issue has ruled that natively digital assets are not in and of themselves “investment contracts” and that the relevant inquiry is whether the facts and cir-

market transactions<sup>6</sup> in a manner consistent with the best reading<sup>7</sup> of the term “investment contract” as interpreted under *SEC v. W.J. Howey Co.*<sup>8</sup> and its progeny.

Of equal importance, the role the bill allocates to each agency generally is appropriately tailored to that agency’s specialized expertise, experience, and statutory remit.

Initial sales of digital assets by an identifiable issuer are often viewed as similar to “capital raises” involving issuance of traditional debt and equity securities, in that the proceeds of the sale are expected to go to the issuer or a related promoter to finance its development of an enterprise. The SEC has been administering a full-some disclosure regime for capital-raising issuances, to the benefit of American investors, since its creation in 1934. Though there are inherent differences between traditional securities offerings and most initial sales of natively digital assets, the SEC nevertheless is well-suited for the role the bill assigns to it in regulating what are essentially capital-forming issuer sales.

Equally, the CFTC is the natural regulator for exchanges, brokers, and dealers executing digital asset transactions not involving the issuer. Interpreting current law, multiple—albeit not all—Federal court rulings on the issue have held that such transactions are not offers or sales of investment contracts.<sup>9</sup> Rather, these are transactions in commodities. The CFTC is best-suited, by dint of expertise, experience, and historical statutory framework, to regulate digital commodity markets.<sup>10</sup>

Though the CFTC currently does not have plenary regulatory authority over spot commodity markets, it has anti-fraud and anti-manipulation authority over such markets. And the Commission, particularly through its Divisions of Market Oversight and Enforcement, intently monitors and surveils these markets given the close relationship between derivatives contracts and the underlying commodities they reference. The CFTC also has regulatory authority over retail foreign exchange dealers<sup>11</sup> and vigorously polices statutory restrictions on certain leveraged retail off-exchange commodity transactions.<sup>12</sup> Moreover, the agency has exclusive regulatory authority over futures, options on futures, and swaps referencing commodities. In summary, the CFTC has spent the past 50 years dedicated to understanding and improving commodities markets and markets for commercial risk transfer.

The CFTC has an extensive history of engagement with digital asset markets via the above-described authorities. After thorough analysis, it determined Bitcoin to be a non-security commodity in 2015<sup>13</sup> and did the same with respect to Ether in

circumstances of a particular digital asset transaction satisfy the “investment contract” definition. See, e.g., *SEC v. Binance Holdings*, 1:23-cv-01599, Doc. 248, at \*19–21 (June 28, 2024) (collecting cases).

<sup>6</sup> See, e.g., *SEC v. Coinbase Inc.*, Case 1:23-cv-04738 (KPF), Doc. 175 (S.D.N.Y. Jan. 7, 2025) (order granting motion to certify ruling for interlocutory appeal). This order acknowledges a split in authority between judicial districts, and even between judges of the same district, on the question of whether secondary-market transactions in digital assets can constitute the offer or sale of “investment contracts.”

<sup>7</sup> See, e.g., *SEC v. Ripple Labs*, 682 F. Supp. 3d 308, 328 (S.D.N.Y. 2023); *Binance*, 1:23-cv-01599, Doc. 248, at \*37–43; see also Letter from Cumberland DRW LLC to SEC Crypto Task Force (Mar. 16, 2025) (explaining why secondary-market transactions generally do not satisfy the “common enterprise” and “reasonable expectation of profits from the efforts of others” prongs of the *Howey* test). While *SEC v. Terraform Labs* declined to distinguish primary from secondary markets and held that the SEC had plausibly alleged horizontal commonality, there the court was required to credit the SEC’s allegations that the defendant, who was the token’s issuer, pooled the proceeds from token sales and represented that such proceeds would be used to benefit all purchasers. See 684 F. Supp. 3d 170, 195–96 (S.D.N.Y. 2023). The court in *SEC v. Coinbase* followed *Terraform* in ruling on a motion for judgment on the pleadings. *SEC v. Coinbase*, Case 1:23-cv-04738 (KPF), Doc. 105 (S.D.N.Y. Mar. 27, 2024).

<sup>8</sup> 328 U.S. 293 (1946).

<sup>9</sup> See generally note 7, *supra*. In *Ripple*, the transactions held not to involve investment contracts did involve the issuer; however, this was not known to the purchasers because the transactions occurred on a blind bid-ask basis.

<sup>10</sup> As a technical matter, a security likely would fall within the broad definition of a “commodity” under Section 1a(9) of the Commodity Exchange Act (“CEA”), 7 U.S.C. 1a(9). However, securities generally are not treated like other commodities under the CEA; Section 2 of the CEA, 7 U.S.C. 2, preserves the SEC’s jurisdiction over securities.

<sup>11</sup> See 7 U.S.C. 2(c)(2)(C)(ii)(III); 17 CFR Part 5.

<sup>12</sup> See 7 U.S.C. 2(c)(2)(C), 2(c)(2)(D) (requiring transactions in foreign exchange and other commodities with counterparties that are not eligible contract participants to be executed on a designated contract market, among other things, unless there is “actual delivery” of the commodity within 2 days (for foreign exchange) or 28 days (for other commodities)); see also, e.g., CFTC, *Addendum to FY 2024 Enforcement Results* (Dec. 2024), [https://www.cftc.gov/media/11596/DOE\\_ResultsFY24\\_AddendumA120424/download](https://www.cftc.gov/media/11596/DOE_ResultsFY24_AddendumA120424/download) (noting CFTC enforcement actions pursuing leveraged retail off-exchange commodity transactions).

<sup>13</sup> See *In re Coinflip, Inc.*, 29 Comm. Fut. L. Rep. (CCH) ¶ 33,538 (Sept. 17, 2015).

2019.<sup>14</sup> It has enhanced integrity in these markets by aggressively and successfully pursuing fraud and manipulation in spot and derivatives instruments—and multiple failure-to-register cases involving digital asset derivatives—since that time.<sup>15</sup> It worked closely with designated contract markets (“DCM”) and their clearinghouses (derivatives clearing organizations, or “DCO”) ahead of the first Bitcoin futures listings in 2017 to ensure appropriate risk management, contract resistance to manipulation, and adherence to other DCM core principles,<sup>16</sup> and did the same with Ether futures listings in 2019. Today, these markets are deep, liquid, and transparent, and are well-policed by the CFTC for fraud, manipulation, and trade practice violations. As former CFTC General Counsel Dan Davis recently noted in a statement before this Committee, Bitcoin, Ether, and other digital assets underlying products trading on CFTC-regulated markets currently represent 83% of total digital asset market capitalization.<sup>17</sup>

The cumulative effect of this extensive engagement with digital asset products and markets recently led the CFTC’s Divisions of Market Oversight and Clearing and Risk to withdraw a 2018 staff advisory providing “enhanced” guidance on listing of digital asset derivatives, explaining that the advisory is no longer necessary given CFTC staff experience gained in this area since that time.<sup>18</sup>

The CFTC’s oversight of digital asset markets is not only long-running, but also battle-tested: in the 2022 failure of digital asset exchange operator FTX, while other FTX trading platforms revealed a total \$8.9 billion shortfall in customer funds and went into bankruptcy, FTX’s CFTC-regulated DCM, swap execution facility (“SEF”), and DCO survived without any loss of customer assets and remain in operation today under new ownership.

This record on digital assets is consistent with the CFTC’s 50 year tenure as a preeminent markets regulator. Due to its sound regulatory framework, not a single CFTC-regulated exchange failed during the 2008 financial crisis. On average during Q1 2025, a total of approximately 40 million futures contracts were traded each day on CME Group and Intercontinental Exchange (“ICE”) derivatives exchanges alone.<sup>19</sup> The CFTC-supervised DCOs for these exchanges are designated by the Financial Stability Oversight Council as systemically important financial market utilities under Title VIII of the Dodd-Frank Act.<sup>20</sup> Neither these DCOs nor any other under CFTC supervision has ever defaulted or even resorted to use of its mutualized guaranty fund resources.<sup>21</sup> And in the OTC derivatives market, total U.S. reported notional traded in interest-rate swaps alone was approximately \$112.7 trillion during Q3 2024.<sup>22</sup> These CFTC-regulated markets and market utilities have functioned well and steadily performed their risk-transfer and shock-absorption roles through

<sup>14</sup> See, e.g., Hon. Heath P. Tarbert, Chairman, CFTC, Yahoo! Finance All Markets Summit (Oct. 10, 2019), <https://www.cftc.gov/PressRoom/PressReleases/8051-19>.

<sup>15</sup> See, e.g., *CFTC v. Samuel Bankman-Fried*, Case No. 1:22-cv-10503-PKC (S.D.N.Y. Aug. 7, 2024); *CFTC v. Changpeng Zhao* (Binance Holdings), Case No. 1:23-cv-01887 (N.D. Ill. Dec. 14, 2023); see also *In re Coinbase*, Comm. Fut. L. Rep. (CCH) ¶34,925 (Mar. 19, 2021).

<sup>16</sup> See, e.g., Remarks of Hon. J. Christopher Giancarlo, Chairman, CFTC, to the ABA Derivatives and Futures Section Conference, Naples, Florida (Jan. 19, 2018).

<sup>17</sup> See *American Innovation and the Future of Digital Assets: A Blueprint for the 21st Century*: Hearing Before the Subcomm. on Commodity Mkts., Dig. Assets, and Rural Dev. of the H. Comm. on Agric. and the Subcomm. on Dig. Assets, Fin. Tech., and Artificial Intelligence of the H. Comm. on Fin. Servs., 119th Cong. 4 (2025) (statement of Dan Davis, Partner, Katten Muchin Rosenman LLP), available at <https://agriculture.house.gov/uploadedfiles/hhrg-119-ba21-wstate-davisd-20250506.pdf>.

<sup>18</sup> CFTC Staff Letter No. 25-07 (Mar. 27, 2025), available at <https://www.cftc.gov/PressRoom/PressReleases/9059-25>. This letter also cites digital asset market growth and maturation over the years in support of withdrawal of the prior advisory.

<sup>19</sup> CME Group International Average Daily Volume Hits Record 8.8 Million Contracts in Q1 2025, Up 19% Year over Year, CME Group (Apr. 9, 2025), [https://www.cmegroup.com/mediaroom/press-releases/2025/4/09/cme\\_group\\_internationalaveragedailyvolumehitsrecord88millioncont.html](https://www.cmegroup.com/mediaroom/press-releases/2025/4/09/cme_group_internationalaveragedailyvolumehitsrecord88millioncont.html); Historical Daily Volume, ICE, <https://ir.theice.com/investor-resources/supplemental-information/default.aspx> (last accessed May 27, 2025). Note that ICE figures include foreign boards of trade registered with the CFTC in addition to DCM ICE Futures US.

<sup>20</sup> See Designated Financial Market Utilities (Jan. 29, 2015), Board of Governors of the Fed. Reserve, [https://www.federalreserve.gov/paymentsystems/designated\\_fm\\_about.htm](https://www.federalreserve.gov/paymentsystems/designated_fm_about.htm).

<sup>21</sup> See Giancarlo, note 29, *infra*, at 5–6.

<sup>22</sup> International Swaps and Derivatives Association, *Interest Rate Derivatives Trading Activity Reported in EU, UK, and US Markets: Third Quarter of 2024 and Year-to-September 30, 2024* (2024), available at <https://www.isda.org/a/lqbgE/Interest-Rate-Derivatives-Trading-Activity-Reported-in-EU-UK-and-US-Markets-Third-Quarter-of-2024-Year-to-September-30-2024.pdf>. Note that these figures include only interest-rate swaps reported to the Depository Trust & Clearing Corporation swap data repository. Not all swap transactions are subject to reporting; for example, CFTC staff has granted no-action relief from swap data repository reporting requirements for inter-affiliate swaps.

periods of extreme volatility, such as during instances of negative oil pricing and other shocks at the onset of the COVID-19 pandemic.<sup>23</sup>

Finally, in addition to the above-described experience and expertise, the CFTC's statutory framework and mission further bolster the case for the CFTC as the appropriate regulator for Digital Commodity Entities. Among the key purposes of the CEA are to promote “responsible innovation and fair competition.” Since they were added to the statute by the Commodity Futures Modernization Act of 2000 (“CFMA”),<sup>24</sup> the CFTC has regulated with these purposes as guiding lights—including in its approach to digital assets.

The CFMA furthered these twin purposes by, *inter alia*, (1) replacing prescriptive requirements with flexible core principles for registered entities (*e.g.*, DCMs, DCOs, and now SEFs following enactment of the Dodd-Frank Act of 2010) and (2) allowing registered entities to list new products for trading without affirmative CFTC approval by certifying to the CFTC that the listing complies with the CEA and CFTC regulations. These reforms were intended, *inter alia*, to “remov[e] barriers to financial innovation that [we]re threatening America’s global competitive position in financial markets.”<sup>25</sup>

The statutory core principles established for registered entities are outcomes-based requirements, and a registered entity has reasonable discretion in determining how to comply.<sup>26</sup> Importantly, “flexible” regulation does not mean “lax” or “light-touch” regulation. The CFTC is authorized to issue (and has issued) interpretations describing acceptable practices for compliance with the core principles, which it may designate as the exclusive means of compliance.<sup>27</sup> And the CFTC has brought enforcement actions against registered entities for failure to comply with applicable core principles and implementing regulations.<sup>28</sup> But the CFTC’s post-CFMA history of outcomes-based regulation has allowed registered entities to establish compliance methods appropriate for their respective businesses, preventing a recurrence of the kind of rigid, one-size-fits-all regulatory environment that stifled innovation and competition in CFTC-regulated markets prior to the CFMA.<sup>29</sup>

The self-certification listing process as implemented by the CFTC has likewise supported innovation and competition, allowing inventive new platform-traded products to flourish by reducing the time to market “from years to days.”<sup>30</sup>

These changes to the CEA have supported the proliferation of a variety of new entrants operating trading platforms, including multiple CFTC-regulated platforms specializing in digital asset products today.

As in the period before enactment of the CFMA, an oppressive regulatory environment has again threatened America’s global competitive position—this time in digital asset markets. The bill applies many of the same remedies that cured the problem in 2000, including a core principles framework for digital commodity exchanges

<sup>23</sup> See Hon. Heath P. Tarbert, *Volatility Ain’t What it Used to Be*, WALL ST. J. (Mar. 23, 2020), <https://www.wsj.com/articles/volatility-aint-what-it-used-to-be-11585004897>.

<sup>24</sup> Public Law 106-554, 114 Stat. 2763 (2000). Since before the CFMA was enacted, Section 4(c) of the CEA has authorized the CFTC to issue exemptions from statutory requirements “in order to promote responsible economic or financial innovation and fair competition.” 7 U.S.C. 6c(a).

<sup>25</sup> Press Release, House Comm. on Agric., Congress Concludes Commodity Futures Modernization Act: House-Senate committee leaders craft consensus measure, (Dec. 15, 2000) (quoting House Agriculture Committee Chairman Larry Combest), <https://agriculture.house.gov/news/documentsingle.aspx?DocumentID=2047>; see also CFMA §2 (providing that “[t]he purposes of [the CFMA] . . . [include] to promote innovation for futures and derivatives . . .”).

<sup>26</sup> See, *e.g.*, 7 U.S.C. 7, 7a-2, 7b-3. The applicable core principles differ across the different types of registered entities.

<sup>27</sup> 7 U.S.C. 7a-2(a).

<sup>28</sup> See, *e.g.*, *In re Options Clearing Corporation*, Comm. Fut. L. Rep. (CCH) ¶35,225 (Feb. 16, 2023).

<sup>29</sup> See *The CFTC at 50: Examining the Past and Future of Commodity Markets*: Hearing Before the H. Comm. on Agric., 119th Cong. (2025) (testimony of De’Ana H. Dow, Partner and General Counsel, Capitol Counsel LLC), available at [https://agriculture.house.gov/uploadedfiles/testimony-package\\_dow\\_03.25.2025.pdf](https://agriculture.house.gov/uploadedfiles/testimony-package_dow_03.25.2025.pdf); see also *The CFTC at 50: Examining the Past and Future of Commodity Markets*: Hearing Before the H. Comm. on Agric., 119th Cong. (2025) (testimony of Hon. J. Christopher Giancarlo, Senior Counsel, Willkie Farr & Gallagher), available at <https://docs.house.gov/meetings/AG/AG00/20250325/118038/HHRG-119-AG00-Wstate-GiancarloJ-20250325-U1.pdf>.

<sup>30</sup> *Hearing on the Commodity Futures Modernization Act of 2000*: Hearing Before the S. Committee on Banking, Housing and Urban Affairs, 109th Cong. (2005) (testimony of Terrence A. Duffy, Chairman, Chicago Mercantile Exchange Holdings, Inc.), available at <https://www.banking.senate.gov/imo/media/doc/duffy.pdf>. The Commission may stay listing of a product during the pendency of Commission proceedings for filing a false certification of compliance with the CEA or during the pendency of a petition to alter or amend the contract terms and conditions under Section 8a(7) of the CEA, 7 U.S.C. 12a(7). 17 CFR 40.2(c).

and a self-certification listing process. This flexible, adaptable framework is particularly well-suited for the relatively novel and constantly evolving nature of digital asset markets. There is no better agency to implement such a regulatory framework in furtherance of responsible innovation than the one that has done so for the last twenty-five years, allowing the markets under its jurisdiction to become by far the largest, and the most vibrant and robust, of their kind in the world.

## 2. Digital Commodity Activity by SEC-Registered Entities

The bill seeks to strike an appropriate balance allowing for efficient, non-duplicative SEC supervision of its registrants engaged in digital commodity activity while preserving CFTC authority over digital commodity markets that are appropriately under its jurisdiction. Regulatory efficiency is a laudable objective. But a framework that retains holistic CFTC oversight over the secondary digital commodity markets is necessary to avoid fragmentation in market regulation, monitoring, and surveillance and to bring to bear the CFTC's unique expertise and perspective regarding these markets.

CFTC registration exemptions for SEC registrants engaged in *de minimis* levels of digital commodity activity may be appropriate measures for minimizing regulatory cost and burden and maximizing efficient use of regulatory resources. This construct has precedents in other areas of overlapping CFTC and SEC jurisdiction.<sup>31</sup> But beyond such limited exemptions, the CFTC should have oversight over digital commodity markets as a whole. Carving up the market between two regulators could result in a situation in which neither regulator can see the forest for the trees and major market disruption, manipulation, fraud, or other issues arise without warning.

Holding multiple registrations with different regulators for different activities is commonplace in U.S. financial markets today. For example, many entities are simultaneously registered with the CFTC as futures commission merchants ("FCM") or swap dealers and with the SEC as broker-dealers or security-based swap dealers. Regulators do and should coordinate with and defer to one another where appropriate to minimize the cost and burden of such multiple registrations. Forms of "alternative compliance" or similar deference are provided for in certain specific areas, such as in CFTC capital rules incorporating for dual registrants elements of SEC net capital rules.<sup>32</sup> Similarly, portfolio margining is available in certain cases for related products under different agencies' jurisdiction—*e.g.*, Treasuries under SEC jurisdiction and Treasury futures under CFTC jurisdiction—with expansion of such margining programs keenly awaited as the SEC's Treasury clearing mandate deadline approaches. A comparison of the vibrancy of broad-based security index futures markets (under sole CFTC jurisdiction) with the past malaise of single-stock and narrow-based security futures markets (under an onerous and complex joint regulatory regime) should serve as a reminder of the importance of these types of measures to minimize regulatory burden in areas of jurisdictional overlap.<sup>33</sup>

But with these tools for regulatory efficiency in our toolkit, we should not hesitate to unify all U.S. digital commodity markets and market participants of material size under a single ruleset, administered by a single agency with the expertise and experience to ensure these markets are vibrant, innovative, and well-regulated.

## 3. Conclusion

Ultimately, exactly *how* the line is drawn between CFTC and SEC jurisdiction is less important than ensuring that a clear, durable line *is* drawn through lasting legislation. If we lose this historic opportunity to provide enduring regulatory clarity for digital asset markets and end-users, we cannot be sure that another will come. And the United States may slip further behind in the push for global digital asset

<sup>31</sup>See, *e.g.*, 17 CFR 4.13(a)(3) (providing an exemption from commodity pool operator registration where, *inter alia*, a pool's positions in products under CFTC jurisdiction do not exceed established thresholds); 17 CFR 240.18a–10 (allowing a dually registered swap dealer and security-based swap dealer to comply with CFTC requirements in lieu of certain SEC requirements where, *inter alia*, the entity's security-based swap positions do not exceed established thresholds).

<sup>32</sup>See, *e.g.*, 17 CFR 23.101(a)(1)(ii); see generally 17 CFR 1.17.

<sup>33</sup>Indeed, the SEC seemingly recognized the latter structure's negative implications for innovation and competition when it attempted to issue an exemption allowing futures contracts on the SPIKESTM index to be regulated as futures rather than security futures, with the stated goal of facilitating new entrants into the market for volatility products. SEC, *Order Granting Conditional Exemptive Relief, Pursuant to Section 36 of the Securities Exchange Act of 1934 With Respect to Futures Contracts on the SPIKESTM Index*, 85 FED. REG. 77297 (Dec. 1, 2020), *vacated*, *CBOE Futures Exchanges, LLC v. SEC*, No. 21–1038 (D.C. Cir. July 28, 2023) (vacating exemptive order under the Administrative Procedure Act due to order's inadequate explanation and consideration of the issues).

markets competitiveness. We should not allow inaction to perpetuate an environment of regulatory uncertainty. Digital asset entrepreneurs and the American people deserve better.

Thank you, and I look forward to your questions.

The CHAIRMAN. Thank you, Ms. Pizzola. At this time, Members will be recognized for questions in order of seniority, alternating between Majority and Minority Members, and in order of arrival for those who joined us after the hearing convened. You will be recognized for 5 minutes, each in order, to allow us to get to as many questions as possible, and I recognize myself for 5 minutes.

Ms. Pizzola, in your testimony, you mentioned there is no better agency to implement a bill like the CLARITY Act and further responsible innovation. Please explain why CFTC is best suited and how it is uniquely situated among Federal regulators on this front.

Ms. PIZZOLA. Thank you for the question, Mr. Chairman. I believe the CFTC is best suited to regulate secondary digital commodity markets in furtherance of responsible innovation because of its experience, its expertise, and its statutory remit. It currently monitors and surveils spot commodity markets closely, given the close relationship between derivatives contracts and their underlying commodities. It has engaged in that activity for 50 years, and its predecessor did so before the CFTC was established, and it spent the past 10 years engaging productively with digital asset spot and derivatives markets. We saw this through its efforts to promote integrity through its very vigorous enforcement program, rooting out fraud and manipulation, as I said, in both the spot and derivatives markets. We have also seen this in the CFTC's oversight of the launch of Bitcoin and Ether futures years ago now that have since become vibrant, well-policed markets.

As Mr. Miller mentioned, in the FTX bankruptcy, we saw that the CFTC-regulated entities within the FTX group were the only ones that were able to return all customer funds without any loss without having to go through the bankruptcy, and that, again, as Mr. Miller said, is because of the diligent oversight and examinations that CFTC staff had and engaged in regularly to prevent the sort of misappropriation of funds that happen with other entities within the group.

So essentially, I would just sum up and say that the CFTC has 25 years of experience in implementing the kind of flexible, core-principles-based framework and self-certification process that, here are key elements of the CLARITY Act's regulatory regime for exchanges. And they have proven over time to support responsible innovation through thousands of product listings, dozens of new market entrants, and I really just think this is the right structure for digital asset markets, and the CFTC is the right regulator to implement that structure given its experience.

The CHAIRMAN. Thank you, ma'am. Mr. Miller, thank you for sharing your story. In the FTX collapse, the only FTX entity in the United States with Federal regulatory oversight was the FTX U.S. derivatives, which is overseen by CFTC. Please describe for us how CFTC's oversight of FTX U.S. derivatives spared it from getting wrapped up in the activities of the FTX foreign entities.

Mr. MILLER. Thank you, Mr. Chairman. Great question. FTX U.S. Derivatives was registered with the CFTC, both as a des-

ignated contract market and a derivatives clearing organization. The tools in place were very simple. Customer assets were held at a third-party custodian segregated from the Treasury and company assets of FTX U.S. Derivatives. Customer assets were in separate accounts. They were subject to rule and legal structures that protected them as such, and they were not able to be accessed either by FTX U.S. Derivatives or the broader enterprise. It is not more complicated than putting U.S. customer assets in a segregated place and protecting those with law.

The CHAIRMAN. Are you concerned something similar to the FTX debacle could occur in the United States if digital assets market structure legislation is not enacted by Congress, and how urgent is it that Congress act?

Mr. MILLER. Another great question. I started my statement with urging prompt action, and I believe that sincerely because what we have now is a 50 state regulatory program that doesn't necessarily impose governance requirements, examinations, audits, and the types of standards we see at our Federal markets regulators. I think the states do a great job at making sure that their standards are followed and that their registration requirements are met. However, we have the 25 and 50 years of experience at our Federal markets regulators to bring to bear, and this statute allows that to happen.

The CHAIRMAN. So how would CLARITY prevent an event like that from happening?

Mr. MILLER. So the CLARITY Act as drafted, the most important point is that it prompts registration. The registration brings in examinations, auditing, governance requirements, independent directors, and record keeping. That tool set allows both regulators and the governance body of any entity to ensure that what the entity says is happening is taking place. And so the registration provisions and the accompanying compliance programs in the Act do clearly what we are asking for in this space.

The CHAIRMAN. Thank you sir, and I yield back my time and recognize the gentlelady from Minnesota, the Ranking Member, Representative Craig, for 5 minutes.

Ms. CRAIG. Thank you so much, Mr. Chairman. I want to begin with a focus on consumer protection, and a key component of that in my mind is educating your customers. The better we can increase the financial literacy and risk for retail customers, the better prepared they will be to face those risks and the opportunities that these new markets present. In addition to establishing a regulatory framework for digital commodities that includes important basic protections for customers, like segregation of funds and disclosures, the CLARITY Act would also require the CFTC and the SEC to jointly study how to increase financial literacy of retail digital commodity holders and improve their coordination on customer education in this space.

For those of you on the panel who have experience working at the CFTC or the SEC, can you talk to us a little bit about the agencies' respective customer education programs, and do you have any suggestions on ways we can help improve customer education and outreach surrounding digital commodities?

Dr. PIWOWAR. I will go first.

Ms. CRAIG. Thank you.

Dr. PIWOWAR. So at the Securities and Exchange Commission, there is an office dedicated to this. It is called the Office of Investor Education and Advocacy, and they engage in a number of financial literacy- or financial education-type programs. They actually have their own website called *Investor.gov*, separate and apart from the SEC's website, and there are a number of different things that they do to try to educate folks. There is an entire page dedicated to digital assets and investing in those assets. Also, I mentioned in my opening testimony that the SEC is already using its existing authority in the digital asset space, and one way they are doing that is issuing staff statements to let people know various things. So for example, they have said meme coins are not securities and do not fall under the Federal securities laws, and so, therefore, you do not have the protection of the Federal securities laws from that, basically, a *caveat emptor* to letting them know those sorts of things. And they have issued a number of other statements on other things, proof of work staking, proof of other sorts of things that they have done, too, so they have a number of different mechanisms for doing that.

Ms. CRAIG. Thank you. It is a critical moment in time to make sure that investors know those are now protected. With respect to the CFTC, any comments there?

Ms. PIZZOLA. I can start, Ranking Member, and then my colleague, Mr. Miller, can jump in. Yes, the CFTC does have, like the SEC, as many here may know, a separate office of customer education and outreach, and it has been engaged in the past, I believe it is almost 10 years now, in educating customers regarding digital assets. It put out virtual currency primers explaining what is Bitcoin, what is Ether, what are virtual currencies, things of that nature, I believe almost 10 years ago now. And since then, it has sort of had regular engagement events, an annual sort of CFTC virtual currency or blockchain day. Sometimes that is part of a broader blockchain week that is held in Washington, D.C. with different universities. But I certainly, Ranking Member, agree that more could be done, particularly in the outreach arena, making sure that more customers are aware, more customers are sort of knowledgeable of the types of fraud and other abuses that can take place. There is always more to be done in that arena, but I do think the CFTC has engaged in robust efforts in that regard.

Ms. CRAIG. Let me just ask two more quick questions because I am running out of time here. Mr. Miller and Ms. Pizzola, let me just ask you, does the CFTC, in your view, have the current resources that would be necessary to regulate this space appropriately? Mr. Miller, yes or no, and maybe 10 seconds.

Mr. MILLER. Yes, it is an agency where resources are critical, and I think it is important to focus on funding the agency at the level of resources it has requested.

Ms. CRAIG. Thank you. Ms. Pizzola.

Ms. PIZZOLA. I agree with that, yes, ma'am.

Ms. CRAIG. Great. Excellent. Let me just close with a final question to each of you. Obviously, there has been a lot of activity from the President and his family in this space. I told you what I thought about that, that he should also be added as well, as the

Vice President, to those folks that are included in the legislation. Under current law, Members of Congress, judicial officers, legislative, judicial employees, *et cetera*, are all prohibited from using non-public information that they acquire because of their position to trade in those CFTC markets. Current law prohibits the same list from telling others, such as nonpublic information, for those trading on those markets. The CLARITY Act rightly adds digital commodities to these prohibitions. Do you believe these prohibitions should apply in the same way for the President? Mr. Miller?

Mr. MILLER. So I think what the Act does is bring about transparency and disclosure requirements that apply to all participants in these markets, and I think that is appropriate.

Ms. CRAIG. Thank you. Ms. Pizzola.

Ms. PIZZOLA. I couldn't agree more. I think the disclosure requirements of the Act are appropriate, and it is appropriate that they are broadly applied.

Ms. CRAIG. I am going until Mr. Chairman cuts me off here. Any other? Yes? Should those prohibitions apply to the President and Vice President?

Dr. PIWOWAR. The meme coins are not under the jurisdiction of the SEC, so no comment.

Ms. CRAIG. Okay. Dr. Ching, just because you are here.

Dr. CHING. I agree with our colleagues that more disclosure and the rules formed by this Commission are going to really help with that in the future. Thank you.

Ms. CRAIG. Not quite the same as prohibition, but thank you, and I yield back.

The CHAIRMAN. The gentlelady's time has expired. I now recognize the gentleman from Oklahoma, Mr. Lucas, for 5 minutes.

Mr. LUCAS. Thank you, Mr. Chairman. Dr. Piwowar, what are the challenges posed by the regulation by enforcement approach that the last Administration took? In other words, why does Congress need to provide a comprehensive regulatory framework for digital assets so the SEC is not depending on after-the-fact enforcement?

Dr. PIWOWAR. Yes, Congressman. I almost want to call you Mr. Chairman, but, Congressman, thank you for that question. The regulation by enforcement by the last Administration had a number of negative effects in the market. So as Mr. Miller testified, it forced a lot of folks to go offshore rather than having customer assets be protected within the regulatory framework. It was not only regulation by enforcement, but there was no actual regulation going on in there. There were actually firms that were going to the SEC begging them to regulate them. Please regulate us. We want to be regulated under the framework to protect the customer assets, as they were saying, and so there was a lot of innovation that went offshore, less protections for consumers.

And one that I think that is an underrated negative consequence was that it wasted SEC resources for 4 years. There were dozens of staff members pursuing cases that were not under its jurisdiction, they lost multiple times in court, and those were resources they could have used to provide clarity in the regulatory space. And now they are catching up, but that was 4 years wasted.

Mr. LUCAS. Dr. Ching, as you and I discussed yesterday, the ag and energy industries are often leading the change when it comes to innovation and technology advancements. Can you talk about some of the challenges our rural producers face when regulations fail to keep up with the new technology?

Dr. CHING. There is a lot of innovation that can happen right now inside of rural America and agriculture. Some of the examples of that we have seen in the past are in this Committee's hearings of encounter tracking, data lineage, and more. Blockchain is one of those great equalizing technologies. As long as you have internet through a phone or other device, you can access the pure power of a decentralized network that is globally accessible. We are very excited about the work that this Committee is doing to help advance these technologies and make them more accessible to developers who can help build these technologies in agriculture and rural America.

Mr. LUCAS. And Mr. Miller, by the way, thank you for maintaining that Oklahoma tone of voice and logic. Would you care to comment as well as a fellow Oklahoma State guy?

Mr. MILLER. Thank you, Congressman. So access to new technology is often gated by the providers of the technology and the willingness of users to adopt it, and oftentimes that is gated by legal and regulatory certainty. And given that we have just gone through, as Commissioner Piwowar described, 4 years of enforcement on every corner of the cryptocurrency and blockchain space, there is no certainty to these rural users that they are allowed to engage with this technology. The CLARITY Act and the work of this Committee will bring that clarity and allow more access to take place.

Mr. LUCAS. Ms. Pizzola, can you talk about the necessity of addressing the spot market gap? How does the CLARITY Act provide regulatory certainty for the spot market trading of digital commodities?

Ms. PIZZOLA. Thank you for the question, Congressman. Yes, I believe that the CLARITY Act does provide very beneficial clarity in the spot markets today. We do have, as Commissioner Piwowar said, essentially a sort of morass of confusion when it comes to whether particular transactions are under SEC's jurisdiction or are sort of spot commodity transactions that are not regulated other than under the CFTC's antifraud and anti-manipulation authority. We did see under the prior Administration, case after case, time wasted, resources misallocated, and just general confusion. And it really did deter market participants and entrepreneurs from participating in the space and drove well-meaning firms, both entrepreneurs and financial institutions, either offshore or just out of the digital asset markets altogether.

And I think the CLARITY Act really does provide a beneficial set of rules of the road that really draw a clear line between SEC and CFTC jurisdiction, and has this sort of registration, examination, auditing that Mr. Miller referenced, as well as customer funds segregation requirements, disclosure requirements, other important aspects of a regulatory framework that you would need in order to sort of have clear rules of the road and ensure that these markets can flourish.

Mr. LUCAS. Thank you very much, and thank you, Mr. Chairman. I yield back to balance my time.

The CHAIRMAN. The gentleman yields back. I now recognize Ms. Brown from Ohio for 5 minutes.

Ms. BROWN. Thank you, Chairman Thompson and Ranking Member Craig, for calling this hearing today, and thank you to our witnesses for being here. As the representative for Ohio's 11th Congressional District, I am proud to represent a region with a legacy of innovation rooted in service to working families. From Garrett Morgan revolutionizing traffic signals to Charles F. Brush perfecting electric lighting, my district has a history of leading innovative technology. That legacy lives on. Case Western Reserve University has been collaborating with Hyland and Dataswift to develop verified blockchain-anchored digital credentials. And just down the road, our world-class hospitals are leveraging artificial intelligence and advanced learning algorithms to protect patient privacy and improve care. This is what innovation looks like, but innovation without guardrails invites exploitation.

Digital assets aren't just about cryptocurrency or speculation. They are about the next generation of technology, finance, and market participation. From enabling faster payments to powering digital identity, the potential is enormous, but so are the risks. Today's regulatory framework is fragmented, outdated, and insufficient. Consumers don't know who is protecting them. Companies operate in a fog of uncertainty, and bad actors are exploiting the vacuum. The time to act on cryptocurrency and digital asset regulation is long overdue. The last few years revealed a systemic failure to protect retail investors from fraud, misconduct, and abuse, and accountability remains elusive, and the risk isn't behind us. It is still unfolding at the highest levels of government.

President Trump has reportedly profited from meme coins, a clear conflict of interest. It should concern every American that someone can spend \$2 million to get a literal seat at the table with the President. Reports indicate that the President and his family have increased their net worth by nearly \$3 billion, thanks to crypto investments, and 40 percent of the President's net worth is now tied to crypto. This isn't just about ethics, it is about oversight. We need clear, consistent, and forward-looking regulation not just to protect consumers, but to give businesses the certainty they need to innovate and grow responsibly.

Mr. Miller, you had a front row seat to the FTX collapse. In your view, are current regulatory frameworks capable of protecting retail investors from the kind of misconduct we saw there, and what critical protections were missing that allowed billions in customer assets to vanish?

Mr. MILLER. Thank you for the question, Congresswoman. I think the tools that we want to bring to bear are capital requirements, customer asset segregation, examination, and audits, and those are the tools baked into the current draft of the CLARITY Act. When you bring that set of tools and regulatory programs into an entity that is holding customer assets, that gives regulators the ability to enforce what the law says.

Ms. BROWN. Thank you. Dr. Piwowar, even if agencies, like the CFTC or SEC, have rulemaking authority, they may lack tools to

ensure transparency and consumer redress. Should they, or possibly the CFPB or another regulator, be empowered to develop a national digital asset consumer protection standard, and if so, what should that include: disclosures, recourse mechanisms, or real-time fraud monitoring?

Dr. PIWOWAR. Yes, thank you for your question. I believe that the SEC and the CFTC have the tools and the necessary authorities, not only the existing ones, but the ones provided in the CLARITY Act. In particular, I note that the CLARITY Act exempts digital commodity issuers from traditional securities regulation. However, it applies a very tailored approach using the SEC's expertise. So the SEC provides disclosures not only for public companies, but also for investment companies like mutual funds, ETFs, closed-end funds. They have the expertise and the tools to apply those that fall under their jurisdiction and I have the confidence that the CFTC also has under theirs.

Ms. BROWN. Thank you, and, Ms. Pizzola, if Congress fails to act, what do you believe the long-term consequences are for low-income and minority consumers who already face deceptive marketing and limited financial protections?

Ms. PIZZOLA. Thank you for the question, Congresswoman. I believe that financial institutions that may otherwise support financial inclusion for those types of Americans will continue to be deterred from participating in this space, and that, again, the types of financial inclusion mechanisms that digital assets can provide will continue to be sort of pushed offshore, as we have seen for the past several years, due to the regulatory fragmentation that you mentioned.

Ms. BROWN. Thank you. Discussion like today's highlight why this Committee's work is so important. Through thoughtful dialogue, we can finally begin to bring digital assets out of the regulatory shadows by ensuring there are rules of the road that protect consumers, promote responsible innovation, and preserve U.S. competitiveness. I look forward to continuing this discussion with my colleagues, and with that, Mr. Chairman, I yield back. Thank you.

The CHAIRMAN. The gentlelady's time has expired. I now recognize Representative Bost for 5 minutes.

Mr. BOST. Thank you, Mr. Chairman. Mr. Miller, given your background and experience, is it important for market participants to proactively know which assets are subject to CFTC's oversight and which assets are subject to the SEC's oversight, and if so, why?

Mr. MILLER. Thank you for the question. It is important to know who your regulator is and who your service provider's regulator is because we have longstanding laws that govern how those assets are protected and how those assets are treated, depending who the regulator is, in the case of insolvency or otherwise. And so it is critical that a customer can look at a business and understand who its regulator is.

Mr. BOST. So does it enhance customers' protection to provide clear lines so they know exactly where their guardrails are and who they are dealing with?

Mr. MILLER. Absolutely.

Mr. BOST. Ms. Pizzola, you have worked at CFTC as well for and on behalf of several firms regulated by the CFTC. Can you talk

about the agency's principal-based approaches and why that would serve as a good fit for digital assets?

Ms. PIZZOLA. Congressman, thank you for the question. The principles based approach that we have under the Commodity Exchange Act, it is really a flexible framework, it establishes outcomes-based requirements, and it gives exchanges and other registered entities reasonable discretion in determining how to comply. And it is expressly designed to promote responsible innovation, which we all want to see in the digital asset space. And ever since it was enacted 25 years ago, it has really allowed exchanges to tailor their compliance efforts to their unique business models, and I think that approach works very well in the digital asset space because of the constant innovation, the evolving nature of the space. I think we have seen that it has supported the proliferation of a variety of new entrants in the exchange operating space, including multiple CFTC-regulated platforms that specialize in digital asset products today, and so I think it is a great fit for the digital asset industry because of those features.

Mr. BOST. I just want to say that as we are moving forward with this, the first time I heard about any digital—obviously it was Bitcoin that everybody talked about

I was in church, and there was a guy who had a radio show program that broadcasted with 30 powerful watts, I am pretty sure, and it was amazing to me. He came up and he said you got to know about this, and honest to goodness, it has been trying to get educated. And so adding to where, early on, Ranking Member Craig went, educating people specifically on understanding Bitcoin, because you can get online and literally blow your head up trying to figure out what digital assets and how you work them. And the only thing I can compare it to is whenever we went to the paper dollar, and you no longer had gold and silver in your hand.

This is the same type situation, and trying to get a wraparound to protect people's, literally, assets that are floating out there and try to understand how to use them is challenging, but your help is tremendous. Thank you for your input and look forward to where we are going with this. Thank you, and I yield back.

The CHAIRMAN. The gentleman yields back. Now I am pleased to recognize gentlelady from Oregon, Ms. Salinas, for 5 minutes.

Ms. SALINAS. Thank you, Chairman Thompson and Ranking Member Craig, and thank you to our witnesses for being with us today.

Throughout my public service, I have taken consumer and investor protection very seriously. Oregonians demand accountability for bad actors, and our state has a pretty proud history of standing up to companies that engage in practices that actually harm consumers. In fact, earlier this year, Oregon's Attorney General filed suit against Coinbase for selling unvetted, unregistered digital assets to Oregonians and Coinbase users across the country. Coinbase cost investors billions of dollars, and one of these specious cryptocurrencies at issue in the lawsuit dropped in value from \$700 to \$72 within 1 month of being launched for public trading on the platform, and today the coin is valued at around \$5 per share. And this question is for the whole panel. How pervasive are these kinds of scam coins across large exchanges like Coinbase, Crypto.com,

and Robinhood, and have these actors or our regulating agencies made any progress to rein in their proliferation?

Mr. MILLER. Thanks for the question, Congresswoman. I think disclosure on the cryptocurrency service providers' websites about the products that are made available is critical. I think many of the companies you identify do that, and they do it very well, and I think the CLARITY Act will encourage more of that and will provide a Federal basis for those types of disclosures. I think the industry has done a good job in the United States of ensuring that customers are aware of what they are buying when they go on the websites and they are able to read the backgrounds of the projects behind the tokens. I think the current lawsuit by the State of Oregon is a bit of a replay of the SEC lawsuits that have either been withdrawn or defeated in the courts, and so I am hopeful that we don't see a continuation of the state of the SEC enforcement path over the last 4 years that diverted so many resources from progress.

Ms. SALINAS. Thank you. Would anybody else like to comment?

Dr. PIWOWAR. Just to comment that I note in the CLARITY Act where it provides for disclosures on the projects up front, and then also, coupled with the prohibitions on certain sales by insiders, I think is a very good consumer protection. It is very consistent with what the SEC requires for initial public offerings where there is a lockup period, where insiders who have inside information on their companies are not allowed to sell into the market until a lockup period expires, and they have to disclose that. So I think providing the prohibitions along with the disclosures is very helpful.

Ms. SALINAS. Thank you, and in the panel's view, how have these kinds of scam coins hurt the investors' perception of digital assets as legitimate investment vehicles?

Ms. PIZZOLA. I will start with that. Thank you, Congresswoman. I think it has deterred participation from financial institutions that otherwise would feel or may feel, particularly with increasing regulatory clarity through the types of SEC staff actions that Commissioner Piwowar mentioned. I think they may otherwise be interested in getting into the space, but are concerned about scams and frauds and exposing their customers to that kind of activity. And then I think in general, it just sort of deters market participation, has left sort of a vacuum of sort of the kind of professional and well-regulated space that we would want to see for crypto assets. I think with the kind of disclosure and customer protection, customer asset segregation requirements, registration, recordkeeping, reporting, things like that that we see under the draft CLARITY Act, I think that that would really professionalize the space and address many of the concerns that you have identified, Congresswoman.

Ms. SALINAS. Thank you. So to the point of everything that we have talked about today with the disclosures, the segregated funds, transparency audits, last Congress, this Committee heard testimony from the CFTC Chairman, Russ Behnam, that indicated the agency would need an additional \$120 million of additional investment over a 3 year period to meet the demands of the regulatory framework that was set out under the FIT21, and this framework does closely monitor what we are talking about today under the

CLARITY Act. How can the CFTC and the SEC, for that matter, be expected to meet the expectations laid out in this legislation without being provided additional resources? And what would some of the harmful consequences of setting forth a more regulated market structure be that cannot be properly enforced?

Mr. MILLER. I will make a short response. Thank you for the question. I think funding our market regulators has been a great return on investment for the American people, and it has been proven over the years, and so if we are going to add responsibilities, we have to add resources.

Ms. SALINAS. Thank you.

Dr. PIWOWAR. From the SEC side, I note that the new Chairman, Paul Atkins, just testified recently to the Appropriations Committee on what he believed the level of resources are, so defer to him on that. I will say that the SEC is already, as I mentioned, redeploying assets from some of their enforcement staff that have been doing some of these cases that should have been focused on protecting consumers. Acting Chairman Uyeda started, I think it was called the Cyber and Emerging Threat Unit that specifically focuses on these types of things, so I think redeploying resources is one way that they can do that.

Ms. SALINAS. Thank you for indulging me, Mr. Chairman. I yield back.

The CHAIRMAN. The gentlelady's time has expired. I now recognize the gentleman from the Buckeye State, Mr. Taylor, for 5 minutes.

Mr. TAYLOR. Thank you very much, Mr. Chairman and Ranking Member Craig, for holding this hearing, and thank you very much to the witnesses for their insight, time, and the sacrifices you made to be here. As representative of a large swath of Appalachian southern Ohio, one of my main priorities is to support policies that promote economic development and job creation. And while the digital assets industry is still in its early stages, many innovators are already using blockchain technology to improve the daily lives of Americans every day. Dr. Ching, can you describe the value of digital assets today and their potential value in the future for small businesses and main street Americans beyond trading them on an exchange? And what I am trying to get at is why should the people in southern Ohio, which is a very Appalachian district, care about what we are talking about today?

Dr. CHING. Thank you for your question, Congressman. We have heard today a little bit about how tokens can be used for different kinds of purposes. I would like to talk about the ones that I think that they are best used for. Tokens are an incredibly neutral way to interact on a blockchain. They provide governance features, staking features, which is security as well as opportunity to do payments, and represent digital identity and verification of the digital identity. In places in Ohio and across the world, we are starting to see new entrepreneurs and new ideas being picked up in these areas to support new applications. I think one actually we talked about in the past was actually working with Ohio State on some programs for digital assets for athletic programs and others and games.

I think that this innovation is very important to support Americans bringing those small businesses across all of America, as well as it is going to help the global economy to make these products accessible from a larger standpoint. So overall, we are very excited about this Committee's work to help provide much more clarity around token issuance and management to making these innovations possible.

Mr. TAYLOR. Thank you very much. We heard testimony earlier that the one basic requirement for participation in this technology is connection to the internet, correct?

[No response.]

Mr. TAYLOR. Okay. My district has an incredibly large part of it that has basically no access to the internet, and I am not the only person that has a district like that. So by show of hands, does anyone on the panel share my concern about the fairness of enacting a comprehensive cryptocurrency framework using the resources of all Americans before we make it accessible to all Americans? Is nobody else concerned about that?

[Hands raised.]

Mr. TAYLOR. We all are? Okay. Good. Good, good. Glad to hear that. Sorry. I didn't think it was coming to me this fast. Mr. Miller, in your testimony, you described how in the absence of Federal action, states have filled the vacuum for digital asset market regulation, and because we lack a Federal framework, innovators are forced to navigate a complex, inconsistent patchwork of licensing regimes. As a small business owner myself, I know the last thing entrepreneurs want to think about is regulations. Every minute you spend thinking about regulations is a minute that is not spent improving your business. I don't know any business owner that would want to spend more time thinking about regulations. So in the current regulatory environment, can you describe further the steps that a digital asset entrepreneur must take if they want to scale at the national level?

Mr. MILLER. Thank you for the question, Congressman. It is a great question and one that we get often. There are at least 40, maybe 45 states that have clear licensing requirements for many types of digital asset businesses that involve transferring assets between customers. Certain states, it can be a multiyear process. The cost estimate, if someone wants a 50 state program, it can be in the millions of dollars. It is a burden that many have faced and decided to not start their business in the United States.

Mr. TAYLOR. Thank you very much. Just for clarification of my previous question, has there been an estimate of the cost that goes into the building the rulemaking framework? Is anybody familiar? I know that is going to be ultimately our job, but is anybody aware of what they estimate that cost to be?

Dr. PIWOWAR. I have not seen an overall cost, but both agencies are required by law when they engage in particular rulemakings to look at the cost and benefits of each of the particular regulations that they are putting in place, so they will be coming out on an individual basis.

Mr. TAYLOR. Sure. So the point of my earlier question, in case it wasn't clear, is the taxpayer money from everybody is going to be used for whatever the cost of these two agencies' big framework

is going to be, but until we get everybody access to the internet, they won't be able to participate in it. Is that where we are?

Mr. MILLER. I will engage this way. I think blockchain provides an opportunity for inclusion and access to financial services, and if that is the promise of it, then we need to distribute it and deliver it to those who need to access it.

Mr. TAYLOR. So you are in favor of making sure everyone has access to the internet before we worry about this framework?

Mr. MILLER. I am exceptionally pro-internet, and I am also pro-blockchain legislation.

[Laughter.]

Mr. TAYLOR. Fair enough.

Dr. PIWOWAR. At the Milken Institute, we worked on a provision of the Bipartisan Infrastructure Bill (Pub. L. 117-58, Infrastructure Investment and Jobs Act) that has \$2 billion at Department of Commerce that rural communities can apply for to get broadband.

Mr. TAYLOR. Okay. Thank you all very much.

Dr. PIWOWAR. So I will be happy to put you in contact with them.

Mr. TAYLOR. I appreciate it. I yield back, Mr. Chairman.

The CHAIRMAN. The gentleman yields. I now recognize the gentleman from Alabama, Mr. Figures, for 5 minutes.

Mr. FIGURES. Thank you, Chairman Thompson and Ranking Member Craig, and I appreciate everyone's involvement in pulling this hearing together, and to the panel. I also want to start with a special thanks to all of the Committee staff and the Committee Members' staff because this is complex stuff. This is not simple. This is tough. It is tough to comprehend. It is tough to understand. It is tough to discuss in simple terms. It is tough. So I want to give a special shout-out and thanks to all staff on both sides of the aisle for really diving into this and becoming the experts that we need.

Congressman Taylor, I was with you back here. You couldn't see us, but we had our hands up, too. We agree with that issue. I represent a very rural part of Alabama for the most part. I have Mobile and Montgomery, but I am pretty sure those are probably the only two cities in my district that most of you guys have heard of. We have a very significant rural broadband access issue, and so I, too, am committed and want to work with you, Congressman Taylor, to make sure that, in the context of this being a future element, a significant and growing element of our economy, that we are not leaving rural America and rural Alabama in the dust simply because they don't have the ability to be able to plug into the future. That is a real thing. You can pull up to McDonald's in my district on any school day and see it full of cars with more cars than people are inside the restaurant because that is their only access to be able to get on the internet to do homework. And so that is a real concern, and, Congressman Taylor, I want to work with you on that going forward.

I spoke to the complexities of these issues, and literacy is enormously important here because we sit here and we look very smart and educated and informed in discussing this subject, but I can guarantee you there are probably less than 20 percent of Members of Congress who can have deeper than a surface-level conversation about this issue because it is tough. And we have the benefits of

staff that can get us up to speed on it, but the average person doesn't. And so people in Alabama and Mississippi and Ohio, they don't have the luxury of having somebody to be able to explain to them what cryptocurrency is, and I believe that is what contributes to a lot of the fear and misunderstanding and misinformation that is out there about the industry. And so, I want to make sure that what we are doing here in regulating this is going to contribute to enhancing literacy across the spectrum of a future, quite possibly, cornerstone of the American economy.

And so, Dr. Ching, what does this bill do for that in terms of financial literacy, particularly to those highly vulnerable groups and populations and communities across the country?

Dr. CHING. Thank you for your question, Congressman, and I just want to address, as an industry, on the product side, we are working actually really hard to support new types of applications where the blockchain can be used without the internet. And so you can imagine a world where even without internet, using Bluetooth technology or other kind of like just person-to-person communication, you can transact in the same way and have those transactions then be finalized on a blockchain when they do connect with the internet at some point in time in the future. This regulation is very helpful to actually define, again, the token issuance rules and having this innovation come into America.

A lot of the products we worked with in the past, ourselves included, have had trouble understanding these rules and regulations and spend considerable resources to try to understand them, and, ultimately, delayed our token launches or forced us into launching with a lot of uncertainty in the past. Other projects don't even have the resources that we have, and they have had to struggle with even moving offshore or finding other methods of solving this challenge. This clarity will be very, very helpful in helping American innovation to happen in places in your district and other places in rural America, and I think with that ability and definition, it will bring back a lot of that entrepreneurial spirit to these areas and then drive technology in those areas as well.

Mr. FIGURES. Thank you for that. And I am personally a believer in innovation and the power of innovation, and believe that we need a framework that encourages said innovation and continues to put America in the driver's seat in this space. But the consumer protection angle of it is obviously something that a lot of people are concerned about and something that we have to be realistic about in addressing and make sure that the framework that we are adopting has sufficient protections and means to address scams. I know the industry does not like frauds, does not like scams, does not like people abusing it. That is not good for business. It is not good for the image of the industry. I know many players have called for regulation for a long time to root out that sort of malfeasance. And so, I guess I will channel this last question to you, Mr. Miller. In terms of consumer protection, does this bill do enough, and I will give you a softball: why is this bill the best way to go right now?

Mr. MILLER. Thank you for the question. By certain measures, 55 million Americans own cryptocurrency, so this is a real question today. And what the bill does is require examinations, customer

asset protection and disclosures, and an ongoing regulatory supervision by our markets regulators with the experience to do it. That is what the CLARITY Act does, and it is why I have been supportive.

Mr. FIGURES. Thank you. I yield back, Mr. Chairman.

The CHAIRMAN. I thank the gentlemen. I now recognize the gentleman from South Dakota, the Chairman of the Subcommittee of jurisdiction for CLARITY, Mr. Johnson, for 5 minutes.

Mr. JOHNSON. Thank you, Mr. Chairman, and thank you for your kind comments at the top of the hearing. Mr. Chairman, as you know, the age of digital asset opportunity and innovation is here. Blockchain technology is going to improve and empower every industry, and a lot sooner than most people realize. The only question that is really before us is where is that innovation going to happen? The only thing that is standing in the way of America being the home for that innovation and that investment is our regulatory uncertainty. Most everyone else has already figured this out, and so the CLARITY Act, which has been a great joint effort between myself, the Chairman, the Ranking Member, Don Davis, and our colleagues on Financial Services, is an attempt to banish that regulatory uncertainty, to unlock this innovation, unlock this investment, and make sure that those industries are empowered.

And so, Dr. Ching, you have spoken quite a little bit today already about how the CLARITY Act, our CLARITY Act, is the path toward unlocking that innovation. Am I being too hyperbolic in my statements?

Dr. CHING. Thank you for the question, Congressman. No, not at all. Thinking about our own journey, we started Aptos Labs in 2021, and it took us 10 months to get the launch in 2022. A lot of time and resources were spent trying to understand best practices in this space, and it was very hard. We ultimately end up launching with a lot of uncertainty and still have uncertainty still today. Others are not as fortunate in this space. They don't have the resources we have, and so for them, it has been a very difficult journey to understand what is permissible, what is not allowed. Are they following the best practices for their particular protocols and their particular products? It is very challenging for that to happen.

Today we have 118 employees in the U.S., and we are very much U.S.-based. We still see a lot of projects happening overseas. We would love to see a lot of projects happening back in the U.S., and we are here to support this Committee and this path forward with the CLARITY Act in making that happen.

Mr. JOHNSON. Ms. Pizzola, well, let me back up. There are some instances today when we have dual registration between the CFTC and the SEC, at least a couple instances of which I am aware. Are the agencies able to handle that? Stakeholders and market participants, does it work?

Ms. PIZZOLA. Yes, Congressman, it does work. Today there are numerous financial institutions that are dually registered with both agencies. You have dual FCMs and broker-dealers, swap dealers and security-based swap dealers, and I think the agencies, while they could certainly do more in the areas of harmonization and deference and coordination, I think there are today many

mechanisms already in place to try to minimize the regulatory burden and cost that comes along with dual registration. For example, we have capital requirements that the CFTC has that incorporate by reference SEC requirements for dual registrants to sort of ease the burden of having to comply with both capital regimes. The SEC has a time limited no-action position for compliance with its security based-swap reporting requirements if an entity complies with CFTC's parallel requirements. There is portfolio margining that sort of eases the burden for entities that are engaged in offsetting positions and related products that are within each agency's respective jurisdiction, for example, Treasuries and Treasury futures.

And so there are a lot of tools in the toolkit to try to minimize regulatory burden that exists today, and I think the agencies certainly could apply similar approaches under a dual registration framework under the CLARITY Act.

Mr. JOHNSON. Thank you. Mr. Chairman, I would note that it seems like it is always easier to do nothing than to do something in Washington. It is really only a deadline that drives us to achieve something, and I would submit to my colleagues that we have a deadline before us. I believe that the next 18 months will see more innovation and more transformation in the blockchain and in the digital asset space than we have seen in the last 18 years. And every other developed country in the world has gotten this right. Now is our time. We have a deadline before us. If we want to protect consumers, if we want to unlock innovation, if we want to be the home of the kind of investment that will transform these industries, now is the time for us to get this right, and I am grateful for my colleagues on both sides of the aisle that have put serious effort into this work product. With that, I would yield back.

The CHAIRMAN. The gentleman yields back. I now recognize the icon of south Chicago, the gentleman from Illinois, Representative Jackson, for 5 minutes.

Mr. JACKSON of Illinois. Thank you. Chairman Thompson, once again, thank you, and our Ranking Member, Ms. Angie Craig. This is such a fascinating topic, and my comments specifically will be going to you, Dr. Piwowar. You got a very fascinating and storied career. Particularly, I feel as if you have been here before, with your great work on the Dodd-Frank Act and other good things.

It seems to me that we are going through a bit of market hysteria. Our country says *DEI* is an inappropriate, illegal term. Only one person has said that. It is ill-defined and not defined at all. There are no DEI laws, so you can't break a law that is not a law. It is an aspiration, diversity: out of many, we are one. Equity, equal protection, inclusiveness. You want to bring more people in. How can we make sure that there is greater market participation, and how can we get to the depth and bring people in that are currently in the margins that would have a higher barrier to getting access to information to these resources, to be a market participant?

Dr. PIWOWAR. Yes. Thank you, Congressman, for that question, right. So at the Milken Institute, as you know, you are very familiar with the Institute—we spend a lot of time thinking about how do we improve access to capital for underserved populations, financial inclusion for underserved populations, and really to what end,

and it is really about economic mobility. If we can provide financial inclusion for people who have not been included into the financial system, there is an opportunity for them to move up the economic ladder, so that is really what it is all about.

And so we do that in a number of ways, focusing on underserved entrepreneurs, underserved communities, like rural communities. We have worked with the Department of Commerce on helping to get access to Federal dollars from communities that had not been able to do that, and also the providers of the capital. We have an HBCU Fellows Program to put people on a pathway to careers in asset management and a lifetime financial security program looking exactly what you are looking at is, how do we get more investment opportunities for folks that maybe don't have \$100,000 to invest, those small-dollar amounts? And that is where a well-regulated system that promotes competition is the best way to do that because then you get competitors competing for everybody. Whether it is offering access to the financial system in a brick-and-mortar situation or on the phone, or whatever it is, the more competition you get, and we have seen that—the costs have gone down and down and down over decades.

Mr. JACKSON of Illinois. Thank you, Dr. Piwowar. Another question, probably more technical, but I wish I had you for a few hours to talk to you all by myself. But from the capital markets perspective, efficiency and liquidity are critical drivers of innovation and growth, and we accept that. How do you see the current regulatory environment impacting liquidity, specifically for the formation of the crypto markets? I am more concerned about how they reduce the bid-ask price, how they will be the next evolution of innovation in this market.

Dr. PIWOWAR. Yes. No, that is a wonderful question. I mentioned the threefold mandate, right, and the key here is, as you mentioned, liquidity, efficiency, and I would add price discovery. So if we can provide a proper framework where people feel protected, have the information to make informed decisions in terms of buying, selling, holding securities, right, that will create more efficient markets. You will have better price discovery, better liquidity for the investors, and more efficient allocation of resources in terms of capital formation for the entrepreneurs like Avery here, and we will get more innovation. So it is a virtuous circle.

Mr. JACKSON of Illinois. And the last question I would ask because I am very much concerned about you have to grow the market, increase liquidity, all the other good drivers in there. But considering the historical access, that diversity initiative, equities initiative, these things have been innovative in bringing this multicultural society together. I bring that up because if we let the markets go their way with certain access to broadband and other things, it will become inefficient. I am trying to figure out how do we keep that as a mandate or as a goal, an aspiration, so that it enhances the market, it does not detract from the market. So most people say, oh, why are you saying diversity, equity, inclusion? Because I can, and I think it is very important, and it helps the capital markets. Can you respond to that, please?

Dr. PIWOWAR. Yes. So one thing that I mentioned when I was a Commissioner at the SEC is that we prohibit some investors from

investing in certain investment opportunities. And the SEC has these rules called the *accredited investor* definition that says, look, some things are so complex, so risky that only sophisticated investors can invest in them, and how does the SEC define *sophistication*? If you are rich, if you have a high net worth, if you have a high net income, you can invest in stuff, so the rich get richer and the other folks get left behind. So this is one where we can really democratize opportunities for investment by looking at the *accredited investor* definition and make sure that it doesn't seep into the digital asset regulation as well.

Mr. JACKSON of Illinois. Thank you so much, Mr. Chairman. I yield back, and thank you for the extra time.

The CHAIRMAN. The gentleman yields back. I am now pleased to recognize the gentleman from the duck and rice capital of the country, Mr. Crawford, for 5 minutes.

Mr. CRAWFORD. I thought LaMalfa might jump in there on that one. He might have some issues with that.

VOICE. [Inaudible.]

Mr. CRAWFORD. Oh, yes. We will talk about that later. For the record, though, he got that right. To follow up, Mr. Miller, in your testimony you said, "Running a crypto exchange in the U.S. is hard and should be." Do you believe the CLARITY Act would continue to make it hard to run a crypto exchange and, therefore, protect American consumers from something like what happened with FTX?

Mr. MILLER. Thank you for the question, Congressman. By saying it is hard, I mean there are compliance programs that need to be in place, and you need the right level of expertise to get it correct, and you need the right level of supervision from a regulator to continually ensure that you are getting it correct. The CLARITY Act, by bringing registration to these businesses, introduces that structure.

Mr. CRAWFORD. Dr. Ching, forgive me, but I am going to ask you to describe the value of digital assets. Assume you are talking to somebody that doesn't know what crypto is, like you met them in the elevator and they ask you what you are here to testify about today, and you say crypto, and they have no clue what that is. In an elevator speech, what is crypto?

Dr. CHING. Thank you for the question, Congressman. It is actually hard to tell in an elevator speech. I just want to acknowledge that up front. But the way we describe digital assets is just a kind of incredibly neutral infrastructure for executing functions that are very hard in the traditional world, like how do you do governance, how do you do staking, how do you support payments in a world that is global and with open, accessible, verifiable capabilities? There is no other possible technology that can support this kind of use case today. And so it is just really about a global utility, public utility, like the same way we think about electricity or water or roads in which any kind of application can be built on top of, really a new age of the internet, and tokens are really the lifeblood of that infrastructure.

Mr. CRAWFORD. So if I heard you right, you are basically saying that crypto is an economic or a financial infrastructure.

Dr. CHING. Exactly. It is a way to transfer value between any two participants.

Mr. CRAWFORD. You want to expand on that a little bit because I am giving you an extra floor on this elevator ride to give me a little bit more time to understand exactly what so that the layperson knows what we are dealing with.

Dr. CHING. Probably the simplest way to describe it, it is a utility token in which you can do payments, governance, staking, transact, and have identity, all in one, on an infrastructure that is trustless as well as globally accessible.

Mr. CRAWFORD. So as a U.S. citizen who is fiercely concerned about privacy and stuff like that, how do I feel comfortable with those kinds of transactions? Talk about the privacy issues, how those are related to this, how you address those. Make me feel better about crypto.

Dr. CHING. That is an excellent question. Today, most blockchains support very transparent operations, which means that any transaction that occurs is going to be completely accessible to everyone to see. It is replayable, and that gives, also, a certain type of comfort to know that there is no way the system can undo or revert those transactions. At the same time, we are very used to having our privacy when we purchase a coffee or buy a sandwich. There is also additional blockchain functionality that is coming down the pipe, though, that will support that level of privacy and confidentiality, yet be regulatory compliant. That is things that Aptos Labs and other companies are exploring, already have prototypes for.

So I think there is a world where we have both the benefits of transparency where people can replay transactions, but also the benefits of privacy, where things remain confidential, can be confidential, but yet regulatory compliant.

Mr. CRAWFORD. And then finally, what underlies a cryptocurrency? In other words, what gives it intrinsic value? Why is it any different than, I don't know, say, a Pokemon card?

Dr. CHING. In many ways, it might be thought of as a Pokemon card. I think it is a good characterization to it, but it really depends on the token and what the token is representing. As far as APT, which is our kind of native token to Aptos, it really is going to be a token that is supporting the transaction fees, prevents the down service attacks on the network. It supports the staking functionality, which is security in the network, making sure it can't be attacked by malicious actors. And then it supports the governance features, so whenever there is a protocol upgrade, people can vote on whether the upgrade wants to happen or not.

Mr. CRAWFORD. Excellent. Thank you, Mr. Chairman. I will yield back.

The CHAIRMAN. The gentleman yields. I am now pleased to recognize Representative McClain Delaney for 5 minutes.

Mrs. MCCLAIN DELANEY. Thank you, Chairman and Ranking Member, for having this hearing, and I was listening to you all in my office and found it very illuminating on multiple fronts, and thank each of you as witnesses here today.

As we all know and you discussed earlier, we are in a digital revolution where values extend beyond the physical crypto. NFTs and

tokenizing real estate are already shaping our economy, expanding financial access, and improving efficiency in places like agriculture. And I represent the 6th District of Maryland, and Maryland, we are leading the way in financial innovation and digital asset management, and I am really excited about how digital assets can really be utilized by the agricultural industry and by our farmers. But as you know, innovation, not opportunity, comes with risk, and in 2022, FTX collapse, wiped out billions and devastated retirees, students, and small businesses. And I think that is why, Mr. Miller, you are so excited about making sure that there are bumpers and safeguards in this regulatory environment. So I am eager to support digital asset innovation, but there are countless examples how we just do need to have these appropriate regulatory protections.

So American policymaking and regulations, it seems, needs to be in line with business and the financial environment, and the enacted markets in crypto assets, or MiCA, regulation provides, it seems, some potential learning lessons for a unified regulatory framework, and it does seem that this bipartisan CLARITY Act improves on last year's version. So I just want to say, I do look forward to hearing from you and working with my colleagues to tackle these different risks and to make sure that we have a secure, transparent environment.

So my first question is really to you, Dr. Piwowar. I thought your earlier testimony was great. Given your former role as a Commissioner at the SEC, I would love to hear your insights on the MiCA framework in the EU. It seems like it establishes some clear rules for crypto asset issuers, and service providers, and investors, and it would make sense that maybe there are certain of those structural elements that could maybe enhance the CLARITY Act effectiveness. One provision that I was interested in is the inclusion of measures that prevent market abuse, like insider trading, market manipulation, and unlawful disclosure of insider information. And there also did seem to be more of an emphasis on the traditional banks having a role in addition to the Big Net, our internet platforms. Do you think that there are structural elements that we could learn from within MiCA or consider with the CLARITY Act in helping its overall effectiveness?

Dr. PIWOWAR. Yes. Thank you, Congresswoman, for the question. I am not familiar with the very specific provisions of MiCA, but what I can tell you is how the SEC does learn from what other regulators do, right? So the SEC has an Office of International Affairs that regularly works with regulators overseas, either bilaterally or multilaterally, through an organization called IOSCO, where we kind of learn from the mistakes of others, right? So in some cases, there is a second mover advantage. You kind of learn from those.

I will note, I mentioned the Crypto Task Force at the SEC. Next week will be their fifth roundtable. They have put out a list of specific questions, some of them on based upon some of the things that were happening in MiCA, 48 specific questions around custody, all kinds of stuff. They have had over 100 meetings that they post on their website. And I see a lot of the firms that have come to see them do have experience with MiCA, so they are going to—

Mrs. MCCLAIN DELANEY. That would be great.

Dr. PIWOWAR. They are providing some of that information to them.

Mrs. MCCLAIN DELANEY. So that would be very helpful, yes. So I just wanted to put that up, and I might add some further questions because it just seemed like it would be a good starting point. The second thing is just, my background was in consumer protection and helping kids online, so I have always been concerned a little bit about consumer rights and privacy. I am concerned that this bill might weaken consumer protections by preempting key state safeguards and lacks clear language to preserve them. States like Maryland have strong protections, and I just want to make sure that we set a regulatory ceiling instead of a floor on this. Could any of you provide examples how the CLARITY Act as written will assure that our constituents won't lose any of these consumer protections and privacy under the bill?

Mr. MILLER. That is a great question. I think by pushing industry participants into registration at the CFTC and the SEC, you are pushing them into mandated Know Your Customer requirements and onboarding requirements. It is not ambiguous.

Mrs. MCCLAIN DELANEY. Anyone else?

Dr. PIWOWAR. And I will also note that in the securities world, where there is preemption, there still is a very important role for the state securities regulators. The SEC works very closely with the state securities regulators, including Maryland, on a number of issues where they can be very helpful in rooting out fraud.

Mrs. MCCLAIN DELANEY. Thank you. Well, I just believe strong consumer protection and privacy are really important, so thank you, and I yield back and will submit some questions for the record.

The CHAIRMAN. The gentlelady yields back. I now recognize the gentleman from Kansas, Mr. Mann, for 5 minutes.

Mr. MANN. Thank you, Mr. Chairman, and thank you all for being here today. I represent the big 1st District of Kansas, which is 60 primarily rural counties in the central and western part of the State of Kansas mostly.

It is evident that both U.S. businesses and individuals need regulatory clarity around digital assets, and there are currently no well-defined rules to allow businesses to operate legally and successfully within the United States. The CLARITY Act will provide a foundation that enables innovation and ensures that the U.S. can lead in this rapidly evolving sector, and I appreciate the Chairman's leadership on this increasingly important issue. Without this foundation, America will continue to fall behind and risk pushing innovation abroad, which I don't believe anybody here in Congress wants, and delighted for you all being here today and being part of this conversation.

Just a handful of questions. First one is for you, Mr. Miller. Can you describe the different regulatory regimes that FTX.com, FTX U.S., FTX Derivatives were subject to?

Mr. MILLER. Sure. Thanks for the question, Congressman. FTX U.S. was a spot exchange and followed the 50 state regulatory program that we have talked a bit about today. FTX U.S. Derivatives was registered with the CFTC and was subject to full examination by the CFTC. FTX International operated on a patchwork of reg-

istrations and licenses globally that were very much unclear at the time, and remain unclear certainly when compared to what you would get from the CLARITY Act.

Mr. MANN. So of the three, I guess, can you indicate kind of what you believe are the benefits are drawbacks to each different silo, if you will?

Mr. MILLER. Sure. So the business in each of its verticals was a centralized exchange, and the most powerful regulatory piece was clear customer asset segregation requirements, and that is what you got from the CFTC's registration program for FTX U.S. Derivatives. Beyond just customer asset segregation, there is surveillance, and I think market surveillance shows up in some of our state programs, but not as clearly as it does at the U.S. Federal markets regulators, and so I think those are the two important pieces.

Mr. MANN. Great. Thank you. Next question for you, Ms. Pizzola. Conflicts of interest have been an increasing area of concern in the digital asset markets. How does the CFTC address potential conflicts of interest with current registered entities and regulations registrants?

Ms. PIZZOLA. Thank you for the question, Congressman. Today there are a variety of mechanisms for addressing conflicts of interest within the Commodity Exchange Act for exchanges. There is a specific core principle that requires designated contract markets to have policies and procedures or a program in place to mitigate and a procedure to resolve the conflicts of interest in the exchange's decision-making process. And then there are more prescriptive requirements for futures commission merchants with respect to their conflicts of interest. They specifically have to have policies and procedures to disclose any material incentives or conflicts of interest to their customers with respect to those customers' decisions to transact in the markets. So there is a very robust regime in place today to ensure that conflicts of interest are mitigated or disclosed both at the exchange level and then at the level of the broker intermediary.

Mr. MANN. Yes, thank you. I think that is helpful clarity for people. Next question for you again, Ms. Pizzola, as you may know, there are no regulators who oversee the centralized spot market exchanges across all commodity markets. What is different about digital assets and other commodity markets that warrants expanded regulatory oversight?

Ms. PIZZOLA. Thank you for the question. I think one difference is that for many commodity markets, they are not centralized exchanges that are sort of similar to those that exist for securities and derivatives. A lot of commodities are commonly bought and sold in OTC bilateral transactions. And I think the difference here is that we do see digital assets often trading in a manner that is similar to securities and futures contracts, both in that they are available for trading on centralized exchanges and that they are more readily accessible to retail and more widely traded by retail. It is easy for a retail market participant to just use their phone to buy crypto assets. They couldn't do that with oil and gas in the same way, and I think as we talked about, that is not inherently a bad thing. There is financial freedom, financial inclusion that comes along with that, but then I think that also brings sort of a

dynamic of more of a need for retail protection perhaps than we would see in other markets.

I think, also, just finally to wrap up, it might make more sense for states to regulate in the area of other commodities where those transactions in the spot markets are taking place at a single physical location within the state. I think here crypto assets are inherently borderless, inherently in interstate commerce. As we talked about, you typically need the internet in order to be able to transact in them, absent sort of some of the new technologies that are coming online. So I think it is just sort of inherently sort of an interstate problem that requires sort of Federal regulation in a way that other commodities perhaps do not.

The CHAIRMAN. I thank the gentleman. I now recognize the gentlelady from Illinois, Ms. Budzinski, for 5 minutes.

Ms. BUDZINSKI. Thank you, Mr. Chairman. I also do want to thank our Ranking Member Craig, and also our Subcommittee Chairman Johnson and Ranking Member Davis as well, and all of our collective work on these sets of issues related to digital assets. After the release of the CLARITY Act, I am grateful for the opportunity to engage directly with stakeholders today on this important legislation, so I just want to say thank you to the panelists for being here.

It is important to me that Congress take steps to address the lack of structure and regulatory clarity for firms, consumers, and other players in the digital asset industry. That is why I was glad to work on a bipartisan manner with the Chairman and his team last Congress on FIT21 and to support that as it got over the finish line in the House, especially as some of my major priorities were included in that bill. One of my priorities sought to preserve consumer legal rights and flexibility to ensure the protections and ability to recoup their assets in the event of a market collapse, and the other was prior approval for products before entities become fully registered, improving the process for customer engagement. I am glad to say that I see that these important provisions have been included in this updated market structure bill, the CLARITY Act, to safeguard consumers and their assets. As I look at the CLARITY Act, I do have a few questions that I think this panel is very well suited to answer.

Dr. Piwowar, decentralized finance, or DeFi, can be excluded from being regulated under some provisions of this Act. How could a regulator protect customers in a truly decentralized environment where there is no responsible entity and no traditional custody of assets?

Dr. PIWOWAR. Great question. A couple responses. One, note that I mentioned the SEC Crypto Task Force is doing a number of roundtables. One that they have already had and one that they are having next week are specifically dedicated to DeFi, looking at trying to get those answers.

Ms. BUDZINSKI. Great.

Dr. PIWOWAR. Second thing I will note is that I remember when I was at the Commission and we had a lot of conversations with folks on talking about DeFi, and there was no regulated entity there. And I said, "Well, how do you do that?", and one of the responses, "Well, smart contracts." "Well, explain this to me." "Well,

smart contracts, basic computer code.” I said, “What does a computer code do?” They said, “Well, basically routes orders on the way that customers do, the way they want them to do instead of being a broker-dealer.” And I said, “Did you take transaction-based compensation for that and the code? Could you do that?” “Yes, that is the legal definition of a *broker-dealer*.” So what some people claim as DeFi is not truly DeFi, and those are the thorny issues that the SEC and the CFTC actually have to get to.

Ms. BUDZINSKI. Right.

Dr. PIWOWAR. And to your point on what really is DeFi on that—what I like about the CLARITY Act is there is a specific study in there to look at those particular issues because there are smart people like Avery in here, like, way smarter than me to think about these things, but I don’t know the answer to that.

Ms. BUDZINSKI. Okay.

Dr. PIWOWAR. And the SEC and CFTC don’t either, and so they are continuing to evolve and learn from folks.

Ms. BUDZINSKI. Great, and I am glad that conversation sounds like it is continuing next week with some roundtable discussions on this point, so thank you. My next question, Ms. Pizzola, would you be able to answer, I think elaborate, on this on this point as well around DeFi?

Ms. PIZZOLA. Congresswoman, thank you, yes. I think it is appropriate certainly, as Dr. Piowar said, to continue to study DeFi. I think it is certainly a nascent area of innovation that I think we don’t want to see sort of quashed by sort of rushing to regulate it in the same way as sort of centralized markets. But I would also agree that if you have sort of activities that sort of closely resemble activities that are taking place sort of in a more centralized market, then I think we would sort of question whether it truly is DeFi. I think one sort of unique aspect of DeFi that sort of maybe warrants regulating it differently from centralized finance is the fact that under a truly decentralized setup, you sort of would have participants self-custody. They wouldn’t be sort of giving control over their assets to a third party.

And so I think that is sort of a fundamental difference from sort of the intermediaries that are regulated under the CLARITY Act where they are taking custody of customer funds, and so we do need to make sure that segregation and customer protection measures are in place.

Ms. BUDZINSKI. Okay. Mr. Miller?

Mr. MILLER. Maybe to share a thought on DeFi. Our current regulators have statutes that give them the authority to do something here, and that could be a safe harbor, a pilot program. But the benefits of those is they get to put conditions on them, and those conditions might look like the CLARITY Act in certain respects, but it is a tool. It is a tool we want to keep on the table.

Ms. BUDZINSKI. Okay, great. I am out of time. I yield back. Thank you.

The CHAIRMAN. The gentlelady yields back. I now recognize the gentlelady from Texas, Congresswoman De La Cruz, for 5 minutes.

Ms. DE LA CRUZ. Thank you, Mr. Chairman, for hosting this important hearing today on American innovation and the future of

digital assets. I would also like to thank our panel of witnesses for their time today.

Mr. Miller, thank you for sharing your recollection around the collapse of FTX. Learning from that failure is an important part of why we are here today. We want to make sure that there is never another collapse like this in the United States. In your testimony, you describe the collapse of FTX as insolvency due to fraud. How would the CLARITY Act protect against this behavior?

Mr. MILLER. Thank you for the question, Congresswoman. Insolvency means the assets that are meant to be there are no longer there, and in the context of cryptocurrency businesses, we are usually talking about customer assets. The CLARITY Act requires customer assets to be held in a segregated and protected way, and in a way that they cannot be taken by not customers.

Ms. DE LA CRUZ. So there are several of our farmers and ranchers listening to this hearing today and, like many Americans, saying, “What does this have to do with ag? Why is this important?” Does anybody on the panel want to answer for the viewing public today on why this is so critical to the future of our farming and ranching communities?

Mr. MILLER. I said I was from Oklahoma, so I should start. I think it is about payments and the flow of transactional finance. Every one of the constituents you mentioned are running businesses, and they want access to credit, they want access to easy and transparent payments, and they don’t want to be stuck behind a broker or an agent unnecessarily. So I think that is a critical component of why it is interesting to anyone running a business.

Ms. DE LA CRUZ. So to those listening today, does that mean they could get faster payments for their products?

Mr. MILLER. I would defer to Dr. Ching.

Dr. CHING. Thank you for the question, Congresswoman. Definitely. So I think to my colleague’s point, payments infrastructure on blockchain is immensely, much more efficient than traditional payment methods. Today on Aptos, you can send money around the world for a hundredth of a cent and have it settle in under a second, and it is globally accessible. It is not something that is limited to one area or another. So I think it is a crucial technology for anyone running a business, as you said, to be able to support this technology and also build in programmable infrastructure. So not only can you have payments, you can have things that happen after those payments, maybe settle other accounts simultaneously. And so those combinations are just going to be very powerful for anyone running a business and supporting the newest generation of Web3.

Ms. DE LA CRUZ. So what this really means is this is transformation for our farmers and ranchers because what I am hearing, and for the American public listening today—the everyday, common person—if a farmer or rancher is able to get their monies faster, that means they can buy more product faster, right, and they can harvest faster. And that means growth, growth for their family farm, perhaps even future generations. Is that correct?

Dr. CHING. Yes, that is correct. Also, there is no credit risk, there is no other settlement risk that comes into play, so it is just a much more efficient financial infrastructure for everyone.

Ms. DE LA CRUZ. So no credit risk, no settlement risk. That is a pretty good deal for our farmers and ranchers. So it is important that we have some type of regulatory infrastructure in place so that farmers can use these tools to grow their farms and for the future generations in farming. Would you all agree?

VOICE. Yes.

Ms. DE LA CRUZ. Would you like to say something? Would you like to say something?

Ms. PIZZOLA. Yes, Congresswoman, thank you. I would agree as well. I would just add that I was inspired by the Subcommittee hearing back in April where we had, I believe it was called CattleProof and GEODNET, but in particular, I think sort of the CattleProof story of previously having had purchases of cattle using checks that maybe took days or weeks to clear and now being able to instead receive payment sort of almost instantaneous, I thought, really shows what Dr. Ching is speaking about in kind of a real-world use case of being able to have sort of those instantaneous payments. And I think that is very promising technology that, as you said, can allow for growth because you are getting your money faster and able to deploy it within the business for farmers and ranchers.

Ms. DE LA CRUZ. And it sounds like for planning purposes, right, if you have a check, it can bounce, then you still have to chase the buyer of the product, get a new check or get another form of money. All of that takes time, but when you have immediate access to capital, that means you can plan for the future, you can grow your product, grow your market, and pass on the legacy of farming to future generations. With that, I yield back.

The CHAIRMAN. Thank the gentlelady and now recognize the gentleman from New York, Mr. Riley, for 5 minutes.

Mr. RILEY. Thank you, Mr. Chairman, and thank you to our witnesses for being here. I think part of the backdrop for this, it seems like maybe it was a while ago, but in other ways it wasn't, is that 2008 financial crisis. I represent a rural district in upstate New York, and looking at the cutting edge of all the issues we are talking about today, it is hard not to remember Wall Street, basically, treating the economy like a casino. It is still really frustrating for folks that Wall Street got a bailout while the middle class, which deserves a bailout, didn't. And people just really don't trust Wall Street still because of that, and they might be looking for, because of that, alternative places to invest.

And I was texting earlier today, one of my buddies from high school, Mike Choji. He is really big into crypto and big supporter of it, and I asked him sort of his perspective on this, and I thought it was interesting. He said that crypto gives people like me—this is what Mike said—access to financial markets, kind of the way E-Trade used to do for stocks. But the thing with the stock market is it is still rigged for large players, and so he sees crypto as being more accessible for somebody like him. And I am wondering how we can make sure that as these new innovations are happening, we don't end up kind of going down the same path where this is something that is seen as accessible and fair for somebody like Mike Choji and not just run by the big players.

And I think that one of the lessons we learned from the financial crisis was that a lot of people just got really over leveraged, and I am worried that we could end up in a similar situation here when I read about situations where there is digital asset trading on margins with really high leverage. And so my question for all of you is just generally, with that backdrop and that still being forefront of mind for so many folks in upstate New York, what sorts of things would you tell them about the regulatory efforts and legislative efforts to make sure this works for them and not just the big players. And then more specifically on this leverage issue, am I thinking about that the right way, and if I am, what are the best ways to address it, including potentially with respect to the legislation we are considering. Commissioner Piwowar, I want to start with you on that, if you could give your perspective.

Dr. PIWOWAR. Sure. On that leverage point, I think you make a great point. Thinking back to the global financial crisis, right, what we saw was there was way too much leverage in the system that the regulators simply did not know anything about. If you think of the over-the-counter derivatives market, this is where the real credit risk was. I happened to be working in the White House during the global financial crisis, and part of my job was to look at and say, "Well, which banks were exposed next?" And the data that we had was completely useless because the current law at the time was actually the SEC and CFTC were prohibited from collecting information on the over-the-counter derivatives market. Dodd-Frank addressed that through Title VII and split up jurisdiction, very similar to what we are talking about today in terms of the swaps market and security-based swaps market. They could have done a better job on the front-end. I talk a little bit about that on my written testimony, but it now provides the regulators with the tools that they need to see the leverage in the system.

The other thing we noted was that a lot of these exposures were with the banks, and so now the bank regulators need to step up and do their job. The response for the last 4 years was keep crypto out of the banks because the crypto can bring down the banks. What we saw in the case of Silicon Valley bank, it was almost the opposite. And so what we need to do not only with the crypto market, and as Dr. Ching pointed out, it actually takes out credit risk, it takes out market risk, it takes out systemic risk, types of concerns from these markets, so I think it is actually working in the right direction.

Mr. RILEY. Great. That is really helpful. Did anybody want to add anything on that?

Dr. CHING. I will just add one thing, which is that I think in the DeFi space, you definitely have much more freedom around the products that are there. I think this regulation will definitely help to understand the protections for consumers, but the other advantage you are going to get from DeFi is going to be transparency. And so I think in those kind of previous instances you mentioned, there was a lot of lack of transparency around how much were the risks of the overall financial markets. In the blockchain space, those risks are kind of very clear and present for everyone to see and analyze and kind of understand, and then kind of educate customers about. So I think these are the kind of tools you want to

build up and support as we see these technologies progress further in the future.

Mr. RILEY. That is really helpful. I appreciate it. I yield back, Mr. Chairman.

The CHAIRMAN. Thank the gentleman. I now recognize the gentleman from Iowa, Mr. Feenstra, for 5 minutes.

Mr. FEENSTRA. I want to thank the Chairman and Ranking Member for having this great hearing today.

The increased adoption of digital assets and the use of blockchain technology has the potential to change the world by lowering the cost of services for everyday Americans and increasing the security and clarity of digital transactions. However, the past few years we saw President Biden wage a war on digital assets, which squashed innovation and brought regulatory uncertainty to the marketplace. I want to thank President Trump and this community for recognizing that this help spurs on innovation by providing clear rules of the road and growth of digital assets in the United States. The bill before us today establishes distinct roles for the SEC and the CFTC, providing a structured pathway for digital asset firms to operate legally and with confidence. Ensuring consumer protections through strengthened transparency and accountability in the marketplace, fostering innovation through regulatory structure to encourage businesses to remain in the U.S.

Dr. Ching, thank you for taking the time to speak to us today. Your experience in the industry has great perspective. In your testimony, you emphasize the importance of regulatory clarity for token issuance and distribution. From your perspective, how does this bill ensure emerging blockchain applications are not unintentionally stifled by over rigid or over ambitious compliance frameworks, and then also, how does this benefit us also?

Dr. CHING. Thank you for the question, Congressman. I would like to talk back a little bit about the start of Aptos Labs and answer this question. Aptos Labs was founded here in the U.S. in 2021, and we did face a lot of uncertainty when it came to launching our token and the token issuance and distribution of it. We spent a lot of time trying to understand the previous launches and see what the best practice for in the space, but ultimately, we had to launch with all of uncertainty. This bill and the CLARITY Act is going to really help projects like ours to understand what the right rules are and how to understand the framework that best supports American innovation.

I also talked to hundreds of builders across the country. Many of them do not have the resources we have that can actually support that kind of investigation. This bill will really help them to get a lot of certainty and clarity in the market. Today there are estimated to be about 10,000 developers of blockchain technology, yet there are millions of programmers around the world and millions in the U.S. alone. We would love to see these programmers start to leverage their talents much more towards this technology base here in the U.S. as this CLARITY Act becomes very much a reality in the everyday world.

Mr. FEENSTRA. That is fantastic. I am glad to hear the benefits. There are so many great benefits that this is going to create. Mr. Miller, this bill gives the CFTC new authority regulating jurisdic-

tion over digital commodities, cash, or spot markets. I want to talk about this a little bit. Can you speak how this expanded jurisdiction would close existing regulatory gaps and why CFTC oversight of spot markets is critical for protecting consumers and ensuring market integrity?

Mr. MILLER. Thanks for the question, of course. So what the CFTC brings to bear is its expertise in markets: bids and offers, liquidity, preventing manipulation, preventing trading misconduct. And while today we have crypto markets that have some state regulatory programs, there is no clear trade surveillance, market monitoring, and market conduct obligations under those programs. The CFTC makes those the fundamental tenets of their regulatory approach.

Mr. FEENSTRA. Thank you. So what would you say to banks? I know banks are sort of concerned about some of these aspects.

Mr. MILLER. Yes. So banks want to ensure that they have clarity from their regulators, that they are permitted to operate in any given asset class. And I think as we get more clarity around the types of products the CFTC and the SEC are regulating, the bank regulators get more and more comfortable about giving the banks the ability to deploy their capital into these markets, and ultimately, that brings up liquidity, and it brings up the resiliency of the markets with more participants.

Mr. FEENSTRA. That is great. So it is sort of a win-win for everybody.

Mr. MILLER. It is all moving in the right direction.

Mr. FEENSTRA. Yep. All right. Thank you, and I yield back.

The CHAIRMAN. The gentleman yields back. I now recognize the gentleman from California, Mr. Costa, for 5 minutes.

Mr. COSTA. Thank you very much, Mr. Chairman. I think this hearing is timely considering the fact that we will, I believe, next week be marking up the CLARITY Act. And I regret, for those who testified earlier, that I missed your comments, but I am going to ask some questions, and maybe you have already opined on that statement. But clearly, at this point in time, there does not appear to be a real regulatory framework in our country to deal with the efforts of digital assets and how those are transferred. Is that correct? Do I hear—

Mr. MILLER. I'll say yes. Yes, there are 55 million Americans who hold digital assets, and it is not clear what the regulatory environment is for the service providers of that business.

Mr. COSTA. And have the four of you had an opportunity to look at the markup, the draft of the digital market CLARITY Act that we will be hearing next week?

Mr. MILLER. I have studied pieces of it.

Mr. COSTA. I see a couple heads nodding. Let's start, is it Chelsea Pizzola?

Ms. PIZZOLA. Yes, sir.

Mr. COSTA. Do you think that this really establishes that level of framework and if so, what is lacking or what is problematic, in your view?

Ms. PIZZOLA. I do think this establishes the appropriate framework for regulation of digital commodity markets within the United States. I think the bill appropriately allocates jurisdiction between

the CFTC and the SEC in a way that reverses the prior ambiguity that had driven digital commodity markets—

Mr. COSTA. Mr. Miller, do you agree?

Mr. MILLER. I agree. It is thoughtful and balanced. It invites the regulators to coordinate, but it creates clear allocations of registration authority.

Mr. COSTA. Any critiques on the current draft on how we can make changes or improve it as we look toward next week's hearing?

Mr. MILLER. I think the biggest issue is that it is not adopted.

Mr. COSTA. It is not what?

Mr. MILLER. It is not adopted. It is not passed.

Mr. COSTA. Oh, okay. Got it. No, I was reading some of the background. There is no obviously comprehensive framework at this point in time. Only nine of the digital asset service providers have registered with the SEC, five of those firms registered pursuant to settlement agreements arising from SEC enforcement actions, and no digital asset service provider is registered with the SEC as a national security exchange, so, therefore, there is no regulated platform to deal with trading of these digital asset securities, you would agree.

Dr. PIWOWAR. Congressman, I would say, yes, that the CLARITY Act provides that framework for them to do that. And then on your earlier question, just to add to what they were saying, I note that the CLARITY Act is a substantial improvement from the discussion draft that was out there. And I really appreciate the fact that the staff and the Members really took to heart some of the feedback that was coming in from folks on things like the definition of *affiliated persons* and how to deal with sort of dual registration stuff. As far as what else needs to get done, in my testimony, I point out that continue to work with SEC and CFTC staff. They are the ones that are going to have to implement this, and the CLARITY Act was just—

Mr. COSTA. And do you believe that the SEC, this will then, if enacted into law, will give them the necessary tools to provide the regulatory oversight necessary to protect businesses from engaging in these transactions?

Dr. PIWOWAR. Yes, and it preserves their exemptive authority to allow them to tailor the regulations that fit this market that are unique and a little bit different than some of the markets they already oversee.

Mr. COSTA. Dr. Ching, do you agree?

Dr. CHING. From our point of view, we have been studying the FIT21 and CLARITY Act. We see a lot of improvements as well. Thank you for the feedback that I think has provided by many counterparties, including ourselves, overall, we are very positive about the direction of this.

Mr. COSTA. So you agree.

Dr. CHING. Yes, I agree.

Mr. COSTA. By the way, I am a bit curious. Aptos Labs, I am familiar with Aptos, California. Does this have any thing to do with that?

Dr. CHING. It is exactly the same. Yes, so Aptos is a city in your state, and we named it after that.

Mr. COSTA. Yes, it is.

Dr. CHING. Yes.

Mr. COSTA. It is a nice part of California. Okay.

Dr. CHING. Beautiful place.

Mr. COSTA. Finally, in terms of comparative analysis, or is there, I guess is the better question, in Europe or in Asia that would compare to establishing this type of a regulatory framework for the SEC? Is there anything that other parts of the world that they are already doing?

Dr. PIWOWAR. I was going to say, so we have a unique structure here where we have the SEC and CFTC as two markets regulators. Most places have a single market regulator, so there are a little bit of nuances that are going on there. Other places have moved, but because we are the biggest market in terms of, and I have talked about how our capital markets are the envy of the world, we are soon going to have the digital assets that are going to be the envy of the world, too, once the SEC and CFTC start implementing the regulations with the authorities that you provide them.

Mr. COSTA. Well, my time has expired, Mr. Chairman, but I think it is helpful as we are moving forward on this effort to ensure that we complement our efforts because these efforts and transactions not only include the continental United States, but obviously other parts of the world where we do business. Thank you.

The CHAIRMAN. I thank the gentleman. I am now pleased recognize the gentleman that represents the rice and duck capital of the western United States, Mr. LaMalfa, for 5 minutes.

Mr. LAMALFA. Well finessed, Mr. Chairman. Well finessed, *western*. So Arkansas must not be the West. I appreciate it. I will put our rice and ducks up against anybody's.

Anyway, I wanted to clarify something that was mentioned earlier in this Committee on a concern about the funding for CFTC and its ability to do the work, and it is my understanding that it will be self-sustained through the next 4 years through a fee schedule that it will have on those being regulated. So I understand it is called Section 410. So there was a contention earlier that there wouldn't be the resources for CFTC to do the work, but that is not the case.

So that said, a couple thoughts on core principles. This will be focused on Ms. Pizzola. As we know, the core principles are a critical part of how CFTC regulates, and would you mention just some of the core principles that the Commission applies to these designated markets, how are they similar to the core principles applied to digital exchanges in the CLARITY Act so that we can get the contrast?

Ms. PIZZOLA. Of course. Thank you, Congressman. I think some of the key core principles that apply to DCMs that have analogs in the CLARITY Act are requirements to provide a competitive, open, and efficient market that is really meant to protect the on-exchange price discovery process. I think similarly, a core principle requiring publication of trading data in a timely manner, it is again meant to protect the price discovery mechanism on exchanges. I think as Mr. Miller mentioned earlier, that the requirement to monitor trading to prevent manipulation, price distortion, and disruptions, requirements to protect markets and market par-

ticipants from abusive practices, these types of really sort of market integrity and market transparency mechanisms are a key reason that the CFTC-regulated markets have functioned so well over the previous decades. And I think the fact that the CLARITY Act has these core principles or sort of analogs of those core principles really is promising for its ability to have similarly robust digital commodity markets.

But I think at the same time, the CLARITY Act appropriately adds additional core principles that are tailored for digital assets. For example, there are requirements to disclose information that is specifically relevant to digital assets, like digital asset economics, source code, transaction history, that maybe you wouldn't see those requirements for other commodities because they just aren't applicable. But, I think in that regard, the CLARITY Act is very appropriately tailored to digital assets and the core principles that it sets forth.

Mr. LAMALFA. All right. Thank you. Just following up then, how do these core principles work to ensure that the exchanges are well run as well as provide strong consumer protection?

Ms. PIZZOLA. Well, I think some examples of ways that the core principles ensure exchanges are well run are things like record-keeping requirements, requirements to have system safeguards in place, obligations to undergo examinations, for example. I think those are ways that the regulators can come in and make sure that there are records. And also, I think financial integrity and financial resourcing requirements, those are all ways that if the CFTC, for example, will come in and make sure that the exchange is, through examining records and through looking at the exchanges financial wherewithal, will make sure that it is being appropriately run and that there aren't any cybersecurity or other system safeguard concerns.

Mr. LAMALFA. All right. I would still like to follow up on some of the FTX situation previously with my remaining time and shoot this to Mr. Miller. Maybe it has been answered, but I would like to hear a little more on what do you think it would have been like if these consumer protections had been in place in the CLARITY Act for these digital assets, if they had been regulated under CLARITY Act? How much better would that have turned out?

Mr. MILLER. Thanks for the question, Congressman. So you would have had an audit and examination requirement over customer funds, and you would have had an obligation of customer funds to be held in a segregated way. Those three tools ensure that customer funds cannot be accessed by founders, malfeasance, acting persons or otherwise. And so in the FTX case, there wouldn't have been a path for the founding team to access the customer funds without a regulator knowing about it.

Mr. LAMALFA. Okay. Good. I appreciate that. Thank you both, and, Mr. Chairman, I know with Mr. Crawford out of the room, we really do know where the best rice comes from, so thank you. I yield back, sir.

The CHAIRMAN. The gentleman yields back. Now, I am pleased to recognize Mr. Thanedar for 5 minutes.

Mr. THANEDAR. Good afternoon, and I thank the panel members here, all of you, to be here and educate us and give us your exper-

tise. I want to thank the bipartisan coalition, including Chairman Thompson and Chairman Johnson and Ranking Members Craig and Davis, who introduced the CLARITY Act. Effective digital asset regulation is key to a successful market where both buyers and sellers of digital assets can thrive. This bill, while not perfect, represents a major step in the right direction to ensure that United States can be a leader in future innovation in the digital asset market.

I am a serial entrepreneur myself, and I am looking at this from the entrepreneurial community. And my question is to any one of you on the panel, how does this CLARITY Act help in assuring the entrepreneurial community to stay in the United States because they take their laptops and computers and go anywhere in the world. How does this help them to stay in the United States, keep the development, the innovation here in the United States? How does this CLARITY Act help, and do you see areas where this CLARITY Act lack in giving that confidence that we do have a regulatory environment where they can foster and do better? So just wanted to get your input on any of this.

Dr. CHING. I will start, and thank you for the question, Congressman. As a fellow entrepreneur, I can say that launching tokens in the U.S. has been difficult. We went through a lot of challenges in launching our own token and a lot of uncertainty back in 2022. We already know that the internet has yielded so many great innovations in the U.S., from Netflix to Facebook to Amazon to Google, and so on and so forth. I would love to see the next iteration of these entrepreneurs happen for Web3 in America, and in order to have that happen, we have to have that regulatory clarity. We have millions of programmers here who are going to careers in other places, in other fields, because of the lack of clarity that exists today, and I think with the CLARITY Act, no pun intended, we are going to start to see that innovation happen here in America at tremendous scale.

We have talked to so many different projects in this space about what they want to do and how they want to launch tokens and how they want to build innovative products, whether it is digital identity, payments, infrastructure, commerce, and what we do see is that this lack of clarity makes it challenging for them. They don't have the necessary resources to find out how to best do things. And so I do believe strongly that with this new legislation, it is going to lead to a huge innovation wave within America, and America can be strong leaders in this space of blockchains and Web3.

Mr. THANEDAR. All right. Well, many of you are familiar with the FIT21 bill from last Congress. Where does CLARITY Act improve upon FIT21 and where does it take a step backwards? Anyone?

Mr. MILLER. Thank you for the question, Congressman. I think what the CLARITY Act gives us is direct and clear registration requirements. They tell the businesses and the founders, the entrepreneurs, where to go and which licenses they need. That is important. It also creates space for innovation around decentralized finance, and it instructs the regulators to continue thinking about that topic while leaving space for innovation. I think those are two critical components.

Mr. THANEDAR. Thank you so much, and, Mr. Chairman, I yield back.

The CHAIRMAN. The gentleman yields back. I thank the gentleman. I now recognize the gentleman from Wisconsin, Mr. Van Orden, for 5 minutes.

Mr. VAN ORDEN. Thank you, Mr. Chairman. Mr. Miller, I read your CV here, and it is very impressive. I do have one question, though.

Mr. MILLER. Thank you.

Mr. VAN ORDEN. Well, you are welcome. I see that you were the General Counsel for FTX U.S. Is that correct?

Mr. MILLER. That is correct.

Mr. VAN ORDEN. How did that turn out?

Mr. MILLER. So you might recall or have heard in the news that the Global FTX Group entered into bankruptcy in November of 2022.

Mr. VAN ORDEN. When were you on board?

Mr. MILLER. I joined in 2021 and left after the bankruptcy file.

Mr. VAN ORDEN. Did you contribute or did you profit financially from FTX?

Mr. MILLER. My role there was as the General Counsel of FTX was—

Mr. VAN ORDEN. That was not my question. I asked you if you profited from the failure of FTX.

Mr. MILLER. I did not profit from the failure of FTX.

Mr. VAN ORDEN. Okay. Well, thank you for clearing that up. I am going to ask you, starting with you, Doctor, tell me if this is an accurate statement, please. Bitcoin is a decentralized, scarce, and secure network for transferring value without any ability to restrict it. Altcoins are unregulated tech startups that regularly result in massive losses by retail investors while their promoters get rich. Is that accurate?

Dr. CHING. I definitely have my views.

Mr. VAN ORDEN. Is that accurate?

Dr. CHING. In my view, I would think not, but—

Mr. VAN ORDEN. Why not?

Dr. CHING. I think it is really this space—

Mr. VAN ORDEN. How is that inaccurate, I guess would be the way to phrase that.

Dr. CHING. I think this space's lack of clarity around regulation has really led to that issue.

Mr. VAN ORDEN. Okay.

Good to go. Sir, Bitcoin is a decentralized, absolutely scarce and secure network for transferring value without any ability to restrict it. Altcoins are unregulated tech startups that regularly result in massive losses by retail investors while promoters get rich. Is that accurate?

Dr. PIWOWAR. I don't know. I don't invest in Altcoins, and they are not under the SEC's jurisdiction.

Mr. VAN ORDEN. So you have no idea what you are talking about then? Is that what you are telling me?

Dr. PIWOWAR. No, no, no. The ones that are under the SEC jurisdiction are the ones that I am more familiar with, initial coin offer-

ings and things like that. So Altcoins, meme coins, stable coins the SEC has said that they are not under the same jurisdiction.

Mr. VAN ORDEN. Yes.

So you are narrowly focused on one thing and you don't have an understanding, a broad understanding, of this entire ecosystem? Is that what you said?

Dr. PIWOWAR. I have a casual understanding of it, but as an expert testifying, it is based on the SEC's—

Mr. VAN ORDEN. Thank you. I appreciate that. Mr. Miller?

Mr. MILLER. Yes, sir.

Mr. VAN ORDEN. Do you want me to read that again? Bitcoin is a decentralized, scarce, and secured network for transferring value without any ability to restrict it. Altcoins are unregulated tech startups that regularly result in massive losses by retail investors while promoters get rich. Is that an accurate statement?

Mr. MILLER. I think we have several enforcement fraud-based actions against private—

Mr. VAN ORDEN. That is not what I am asking. If you can reflect on your former vocation or current vocation when you were the General Counsel of FTX, would that statement be accurate?

Mr. MILLER. The statement I—

Mr. VAN ORDEN. Did retail investors get fleeced?

Mr. MILLER. There are Altcoins offerings that we should not have, and the CLARITY Act will make them—

[Cross talking.]

Mr. VAN ORDEN. I am not talking about the Act, sir. I am asking you a very direct question. So did retail investors get fleeced while a bunch of people got rich? One guy went to prison for 25 years working with FTX, which you were the General Counsel of there, sir. You should be intimately familiar with this. Is that an accurate statement or not?

Mr. MILLER. There were customer losses when FTX filed for insolvency.

Mr. VAN ORDEN. Okay. Enough of that. Ma'am, we are not listening. So is that an accurate statement? Should I read it again for you, please? Do you need—

Ms. PIZZOLA. Yes.

Mr. VAN ORDEN. Okay. Here you go. Bitcoin is a decentralized, scarce, and secure network for transferring value without any ability to restrict it. Altcoins are unregulated regulated tech startups that regularly result in massive losses by retail investors while promoters get rich. Is that an accurate statement?

Ms. PIZZOLA. Congressman, we have seen Altcoins failures that did result in investor losses. I think we have seen—

Mr. VAN ORDEN. Okay.

Ms. PIZZOLA. In other markets we have seen, similarly, sometimes see stocks go to zero and see massive losses. But I do think the bill puts in place the kind of disclosure mechanisms and other protections against insiders sort of dumping tokens that I think help.

Mr. VAN ORDEN. Awesome. Thank you, and I want to be crystal clear. I view these types of currencies as a way to help guard against tyranny, and I want them to be independent from the government. They should be regulated only to the point where we can't

fleece people, like Mr. Miller is the General Counsel for FTX, and that happened. I don't want that to happen again, but these currencies are critical for us to maintain freedom. We have to be able to exchange in commerce without the government getting in our business.

And so I am supporting your efforts. I just want you to really focus on what the heck is going on here and understand it ain't about you. It is not about making a dollar off another dollar. It is about making sure that American citizens and world citizens, because these are global commodities, to make sure that they have the ability to transact amongst themselves without the United States Government or other governments getting into our business. And with that, I yield back.

The CHAIRMAN. The gentleman yields back. I now recognize Ms. Tokuda from the great State of Hawaii.

Mr. TOKUDA. Thank you, Mr. Chairman, and thank you to the witnesses that are here. *Aloha*, Dr. Ching. It is great to see another *kama'āina* in the room.

The potential for digital assets to transform our modern financial systems is undeniable, and I appreciate the Committee's commitment to developing a thoughtful bipartisan framework to regulate these new technologies. Last Congress, we took steps to develop a modern framework for regulating digital assets with the FIT21 Act, and many of us did raise strong concerns that the legislation did not go far enough in establishing strong consumer protection standards, particularly around disclosures, fraud prevention, and cybersecurity safeguards. In the wake of several high-profile cases of cryptocurrency fraud and bankruptcy among crypto exchange companies, as was just mentioned, like the collapse of FTX in 2022, I believe it is crucial that we bake robust, strong consumer and investor protections into our regulatory framework for digital asset markets. We have an important opportunity with the CLARITY Act to prevent future market catastrophes by setting the right conditions to ensure security and transparency for investors while also promoting innovation in this area.

Dr. Piwowar, your testimony highlights the importance of consumer protection measures in Federal security laws, such as disclosure requirements, that aid informed decisions and best-interest standards and other fiduciary duties that ensure fair treatment. As we develop frameworks for regulating digital assets, what are the key customer protection elements that we should take into consideration, and how do the protections in the CLARITY Act compare to those provided by the SEC for other types of financial transactions?

Dr. PIWOWAR. Thank you for that question. It is the same ones that the SEC already has, right? The foundation is disclosure, right, so giving proper disclosure about meaningful information to make informed investment decisions about whether to buy-sell securities or vote their shares, so that is where it starts with. Then there is the protection of the actual customer assets, and Ryne talked about at the CFTC. It is basically the same thing at the SEC. It is different underlying laws, but it is basically the same thing where you safeguard the customer assets, you don't allow the company to play with those assets, and in the event of a failure of

the firm, that those customer assets are moved very quickly to a solvent institution that is there. And so those are very much the same, and then you mentioned best-interest standard. There are the conflicts of interest that are still there involved with not putting the firm's interest in front of the customer. So whether it is best interest for broker-dealers, or whether it is a fiduciary duty for investment advisors, or best-execution requirements in terms of the trading that is involved, those are all principles based, and we talked about the benefits of principle-based regulations, that they can be tailored for the specific markets.

Mr. TOKUDA. Is there anything in particular that you would want to add or strengthen when it comes to consumer protection into the Act itself or—

Dr. PIWOWAR. I think what the Act recognizes is that the disclosures for digital assets are not going to be the same as for public companies in a couple ways: one, what is the disclosed and how long it is disclosed. What I really like about the Act is that when you have public companies or investment companies, they stay securities for their entire life, right? When it comes to digital assets, you have this issue of, early on, a central common enterprise, which is the definition that is used under the *Howey Test* for an *investment contract*, you have control by insiders. Insiders have infrastructure information around the public offering, but as the blockchain matures, and I really like the phrase that is used in the Act, "evolves or matures into a decentralized blockchain system," that information becomes less important and, in fact, control goes away. And so the disclosure requirements sort of go away as the blockchain becomes mature. So I think that is an appropriately-tailored way to think about it.

Now, in terms of whether it has got the exact numbers and the right numbers in there, this is where I think the SEC staff can be very helpful in providing some maybe tweaks around the edges in terms of getting the specifics right.

Mr. TOKUDA. Okay. I am pretty sure it was addressed, but I do think oversight discussions are really critical as we develop this as well. Actually, I wanted to move on to you, Dr. Ching. For myself, it is always an issue of accessibility, especially in our rural and remote communities like where both of us grew up, and one of the promises of new financial technology is that it can broaden financial access. But for that to happen, rural communities like ours, many of which still face gaps in broadband access and limited exposure to financial innovation, need to be able to come along for the ride, if you will. So as somebody that comes from the State of Hawaii, I am sure you are familiar with the challenges we face with connectivity, especially in the Nupur Islands. Rural communities also tend to have higher under-banked population. Can you speak to the role a Federal framework for digital asset markings can play in promoting equitable access to new financial technologies?

Dr. CHING. Thank you for the question, Congresswoman. I just want to start off by saying I think education is a big piece of this. I participated in the first inaugural Hawaii Blockchain Summit last year and also been exploring some efforts in the islands around tokenizing drivers' licenses, as well as some efforts even in Moloka'i to support different kinds of value exchange using blockchain-based

technology. I do share your concerns as well, though, with the lack of broadband access, that it is difficult for everyone within the islands to kind of experience and benefit from the technology as well.

Earlier on in the hearing we did discuss that blockchain is undergoing transformation where perhaps without internet access, you can still interact with each other and then have those transactions settled to the blockchain a later point when they do come into contact with internet. And so we are going to, from our point of view, explore those technologies to make sure we can actually enable that in the future.

Mr. TOKUDA. Thank you very much, and thank you, Mr. Chairman, for always prioritizing access in rural America, like both of our districts. Thank you. I yield back.

Mr. JOHNSON [presiding.] Very good. In the queue is Mr. Rose, followed by Mr. Messmer at this time, and with that, the gentleman from Tennessee is recognized.

Mr. ROSE. Thank you, Mr. Chairman, and thanks to Chairman Thompson and Ranking Member Craig for holding this important hearing, and thank you to our witnesses for taking time to be with us today.

Dr. Piwowar, regarding Section 109 of the CLARITY Act, which pertains to international cooperation, I would like to explore the safeguards the SEC would likely implement when entering into information-sharing agreements with foreign regulatory authorities. Specifically, what measures would the SEC take to ensure that sharing sensitive information with foreign regulators doesn't compromise U.S. national security or the proprietary business interest of digital asset companies?

Dr. PIWOWAR. Thank you for that question. The information-sharing agreements with SEC primarily are in the enforcement context and are information about fraud that is global in nature. So if you have somebody perpetrating fraud from one country and it affects U.S. investors, and then the proceeds of that fraud are put into a bank or financial institution in another country, the information-sharing agreements allow the regulator—allows the SEC to find out from the regulators where the fraud was being perpetrated to try to stop that fraud, and then also to work with the regulators in the other countries to freeze the bank accounts to get the customer money back for the customers.

Mr. ROSE. Thank you for that. The CLARITY Act requires four joint rulemakings between the SEC and the CFTC in order to set up efficient and functioning digital commodity markets. Importantly, these joint rulemakings clearly delineate their respective responsibilities. Opponents of this bill have criticized these joint rulemakings, citing the practical challenges of the SEC and CFTC coordination. Dr. Piwowar or Mr. Miller, and you both can speak to this, can you highlight some of these joint rulemakings and explain why it is essential for the CFTC and SEC to coordinate on these matters?

Dr. PIWOWAR. Yes, thank you, Congressman. Yes, in my testimony, one of my recommendations was to try to narrow the amount of actual joint rulemaking that has to go through on the back end. Having been at the SEC and implement some of the Dodd-Frank implementations where many of them were joint

rulemakings, it is difficult to do those. So I would urge you to actually talk to the staff and see how much you can get done on the front-end because it slows it down on the other end. It is not because they don't work well together. It is just because they have different authorizing statutes, different ways of looking at things, and their time could be better spent actually implementing the regulations rather than actually writing them.

Mr. MILLER. Thank you for the question. We are trending towards a single marketplace with equities, cryptocurrencies, other tokenized assets, and so the exchange places in many respects might be dual registered. And so the two agencies, if the exchange place is registered with both of them, need to identify a primary regulator and figure out what the role of the other regulator is. And there is a history at the two agencies of doing this all the way back to Shad-Johnson through the Dodd-Frank Act and going forward, so I believe they will do it. I do agree with Commissioner Piowar that the more instruction that comes in the legislation, the better.

Mr. ROSE. Thank you. And so I take it both of you think it is not ideal, but inescapable that there need to be the joint rulemakings. Is that a fair—

Dr. PIOWAR. Yes, there are some issues where they just have to get together and do it, so I will give one quick example is futures contracts on stock market indexes, right? So a futures contract on the S&P 500 Index is given to the CFTC, right, for jurisdiction, but if you have a single stock futures contract, that behaves exactly like the stock and you are concerned about insider trading, and so the SEC is given jurisdiction over that. But what do you do with narrow-based indexes of three or four or five or nine stocks or whatever? Well, that was where the SEC and the CFTC had to come together on what Shad-Johnson and some other things come together and actually hammer out those things. So there are some places where they have to hammer out those things, but the more you can handle those on the front-end, the quicker the rulemakings will actually get done.

Mr. ROSE. And I believe as a part of recent executive action that you are going to end up going through OIRA a couple of times on these things. Do you have concerns about that?

Dr. PIOWAR. I do not. I have always been a strong proponent of cost-benefit analysis, economic analysis at the agencies. The agencies have always been subject to judicial review and have had rules thrown out on cost-benefit analysis. I think going through additional review actually would kind of help and decrease the risk of having these things overturned.

Mr. ROSE. All right. I think my time has expired, so I will yield back the balance of my time. Thanks, Mr. Chairman.

Mr. JOHNSON. Thank you, Mr. Rose. The gentleman from Indiana is now recognized for 5 minutes.

Mr. MESSMER. Thank you, Mr. Chairman, and thank you for the witnesses for being here today. Dr. Ching, you mentioned that Aptos had to fight through regulatory inefficiencies to make its way to market. Did the lack of clarity impact your start date, harm your revenue, or decrease or delay customers' involvement?

Dr. CHING. Thank you for the question, Congressman. It mainly impacted our ability to launch to market, a time to market, as well as impacted our ability to understand exactly how we could educate folks about token usage. We definitely tried to be as conservative as possible and also just apply best practices.

Mr. MESSMER. Okay. Can we assume the challenges you faced are endured by other blockchain technologies?

Dr. CHING. Definitely. We are not alone in this space.

Mr. MESSMER. Okay. Thank you. Mr. Miller and Dr. Ching, as individuals who have experienced extremes of the current regulatory system and the absence of statutory structure, each of you has an enlightening perspective to share. On one end of the spectrum, honest investors are being punished, while on the opposite end of the spectrum, spotty regulations have allowed bad actors to cause incredible damage. Would each of you speak to how the CLARITY Act provides regulatory guide rails as described in Mr. Miller's testimony instead of a blanket that suffocates innovation?

Mr. MILLER. Thank you for the question. Our learned experience as markets professionals is that responsible regulation promotes innovation, promotes growth, and promotes the deployment of capital, and so I think that is where the CLARITY Act is striking the right balance. It says here is a structure, opt into it, you get certainty and then you can do your business.

Mr. MESSMER. Thank you.

Dr. CHING. I also agree with that. I am very supportive of all your efforts.

Mr. MESSMER. Super. Thank you. With the obvious failure of the current regulatory structure to support innovation in digital asset markets, I feel the need to ask why it has taken so long to pass legislation, but I think your testimonies have already explained the draft and redraft nature of Congress and the regulatory pendulum of Administrations very well. The CLARITY Act, like you said in your testimony, Mr. Miller, marks a bold step in actually producing a legislative solution. It does so using input gathered not only from this year's round of comments, but last year's as well. One of the notable strengths of the CLARITY Act is the inclusion of the CFTC's core principles regulation. Mr. Miller, can you speak that this adaptive regulatory style will keep the legislation relevant in an ever-changing industry?

Mr. MILLER. Thank you for the question. So the core principles approach in the Commodity Exchange Act and CFTC rules allows innovators and entrepreneurs to build their business and educates them on what the expectations are from a principles-based perspective of regulators, and I think that approach has proven durable over the years, and it is the right approach now.

Mr. MESSMER. Okay. Thank you. Thank you, Mr. Miller. Now, Ms. Pizzola, do you think the CLARITY Act checks the right regulatory boxes in integrating both prescriptive and adaptive methods to govern digital asset market structures?

Ms. PIZZOLA. Congressman, yes, I do. I think it appropriately provides the kind of flexibility that Mr. Miller was just talking about for exchanges to tailor their compliance methods to their particular business models, which I think we have seen be very successful in regulation of designated contract markets. There is that

flexibility that is appropriate for the exchanges. I think for the regulated intermediaries, the regulation is a bit more prescriptive in some areas, sort of record keeping, chief compliance officer requirements, disclosures, things of that nature. And I think it is, perhaps appropriately so, a little bit more prescriptive just because there is that direct interface that those intermediaries have with customers. They may be receiving customer funds, but they are also interacting on a daily basis with those customers. So there may be sort of more instances for trust building, but also for potential fraud and things like that when you sort of got face-to-face interaction or otherwise direct interaction every day.

Mr. MESSMER. Okay. Well, thank you. Thank you both. I am encouraged that the text in front of us and heartened that developers, lawyers, and regulatory experts here have come together in agreement that the CLARITY Act gets it right. So thank you all, and I yield back my time.

Mr. JOHNSON. Thank you, the gentleman from Indiana. Before we adjourn today, I invite the Ranking Member to share any closing comments she may have.

Ms. CRAIG. Thank you so much, Mr. Chairman. If this hearing proved anything, it is that there is bipartisan agreement that we need clear rules of the road to provide sufficient customer protections for retail investors and to allow innovators in this space to do what they do best. The CLARITY Act is a good first step toward this shared goal. I want to thank the witnesses for joining us to share the firsthand perspective that we need to make informed public policy, and I want to thank the Chairman here for holding this hearing, and the Subcommittee Chairman. I hope we can continue to work together to strengthen this bill and broaden support for it in the U.S. House. I still firmly believe that any market for digital assets must be fair. If the United States is to be a leader in this space, we must make sure digital assets do not become an avenue for political corruption, but we will have an opportunity to talk more about that a little bit later. Again, thank you, and I yield back.

Mr. JOHNSON. We are on the cusp of something special here, a major victory for consumers, markets, and innovators, and I think it is remarkable. I want to thank the hearing panelists today because I do think the standard D.C. way all too often is to do things that are polarized and partisan, insular, uninformed, kind of detached sometimes from the real work of a marketplace. And yet this process, the CLARITY Act, building on the successes of FIT21, has been the opposite of that. It has been bipartisan, it has been collaborative, it has been informed, and it has been done together in a bipartisan and bicameral conversation, and with many stakeholders, primarily across the technology and consumer protection sphere. And I think we are, Madam Ranking Member, at a spot where we can make further improvements to the bill and ultimately land in a place that is going to be a huge success for everyone involved.

With that, under the Rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplemental written responses from the witnesses to any questions posed by a Member.

With that, this hearing of the Committee on Agriculture is adjourned.

[Whereupon, at 12:35 p.m., the Committee was adjourned.]

[Material submitted for inclusion in the record follows:]



SUBMITTED TRANSCRIPT BY HON. GLENN THOMPSON, A REPRESENTATIVE IN  
CONGRESS FROM PENNSYLVANIA

**ROUNDTABLE: AMERICAN INNOVATION AND THE  
FUTURE OF DIGITAL ASSETS**

**(BLUEPRINT FOR THE 21ST CENTURY)**

—  
TUESDAY, MAY 6, 2025

U.S. HOUSE OF REPRESENTATIVES  
SUBCOMMITTEE ON DIGITAL ASSETS, FINANCIAL TECHNOLOGY, AND ARTIFICIAL  
INTELLIGENCE,  
Committee on Financial Services;  
JOINT WITH THE  
SUBCOMMITTEE ON COMMODITY MARKETS, DIGITAL ASSETS, AND RURAL  
DEVELOPMENT,  
Committee on Agriculture  
Washington, D.C.

The Subcommittees met, pursuant to call, at 10:00 a.m., in Room 1300, Longworth House Office Building, Hon. Bryan Steil [Chairman of the Financial Services Subcommittee on Digital Assets, Financial Technology, and Artificial Intelligence] presiding.

Members present (Committee on Financial Services): Representatives Steil, Huizenga, Davidson, Rose, Timmons, Stutzman, Nunn, Downing, Haridopolos, Moore, Hill (*ex officio*), Lynch, Foster, Gottheimer, Garcia, Liccardo, Waters (*ex officio*), Sherman, and Himes.

Members present (Committee on Agriculture): Representatives Johnson, Rose, Lucas, Austin Scott of Georgia, Rouzer, Mann, Finstad, Nunn, Bresnahan, Messmer, Taylor, Thompson (*ex officio*), Wied, Davis of North Carolina, Budzinski, Jackson, Thanedar, McDonald Rivet, Figures, Vindman, Mannion, McClain Delaney, and Craig (*ex officio*).

Mr. STEIL. The Subcommittee will come to order. I note that today's Committee activity will be viewed—

Ms. WATERS. I object to this joint hearing. Pursuant to the House rules, this joint hearing requires unanimous consent, and I do not consent.

Mr. STEIL. You are recognized. May I ask the basis for the objection from the Ranking Member?

Ms. WATERS. I object to this joint hearing. Pursuant to the House rules, this joint hearing requires unanimous consent, and I do not consent.

Mr. JOHNSON. Does the lady have a question?

Mr. STEIL. Will the Ranking Member yield?

Mr. JOHNSON. Madam Ranking Member?

Mr. STEIL. Will the Ranking Member yield?

Mr. JOHNSON. Mr. Chairman, I would ask if the lady would yield for a question.

Mr. STEIL. Will the Ranking Member of the Committee on Financial Services yield to a question?

[Pause.]

Mr. STEIL. I will ask again. Will the Ranking Member of the full Committee on Financial Services yield to a question from the Subcommittee Chairman?

Mr. JOHNSON. Mr. Chairman, I would just note, by way of context, for the Ranking Member, I understand your objection, or I understand that you have made it. I just want to get a better insight into what is the basis of your objection, so that if there is something that we can do to remove that problem we can work in good faith to do so.

[Pause.]

Ms. WATERS. I object to this joint hearing because of the corruption of the President of the United States and his ownership of crypto and his oversight of all the agencies. I object.

Mr. JOHNSON. Mr. Chairman, before I yield I would just note that a good regulatory product, good regulatory rules of the road I think would provide an environ-

ment where people would have more faith in the marketplace. And I think these conversations are a critically important part of getting there. Thank you.

Mr. STEIL. The Chairman of the full Committee on Financial Services, Mr. Hill, is recognized.

Mr. HILL. Thank you, Mr. Steil. I want to be really clear and set the record straight today. The Ranking Member has expressed concern about the conflicts of interest, which is why she is disrupting today's joint hearing. Through her actions today, the Ranking Member has thrown partisanship into what has historically been a strong, good, working bipartisan relationship.

For those of you that may not know, we held a similar hearing, a similar joint hearing in this same building in May 2023, under the leadership of Chairman Thompson, then Ranking Member David Scott, former Chairman McHenry, and Ranking Member Waters. The purpose of that hearing, like today's hearing, is to discuss the importance of rules for digital assets so that every market participant must abide by them.

I was encouraged by the engagement that we received from last Congress by Members on both sides of the aisle. There was overwhelming support from the House Democrats and Republicans on legislation that brings digital asset markets into the regulatory perimeter and closes the gaps in regulation, gaps that we all agree exist, gaps that President Biden agrees that exist, gaps that President Trump agrees that exist. Members worked hard to provide robust consumer protections, and they did so in a manner that would make our constituent proud.

We left our differences at the door, and we were honest and transparent in our legislative work. Members on both sides of our committees are committed to crafting legislation to provide that regulatory clarity to encourage responsible actors in the digital asset ecosystem. That is what most of the Members in this room are here to discuss today.

As the Ranking Member currently pointed out, to hold a joint hearing we must receive unanimous consent from both Republicans and Democrats to proceed. The Ranking Member received ample notice, more than 6 weeks, and negotiated an additional witness for the minority. Yet after that good-faith effort, the Ranking Member is objecting today. We agreed not to notice legislation to this joint hearing, yet the Ranking Member is objecting today. We determined a seating chart, discussed opening statements and witnesses, yet the Ranking Member is objecting today.

I want to thank Agriculture Ranking Member Craig and her staff, Subcommittee Ranking Member Don Davis, Chairman Behnam, and our witnesses who traveled here to be dedicated to their time to share their views with the Committee. I also want to thank Chairman Thompson, Subcommittee Chairs Johnson and Steil, and my staff for your commitment for working relentlessly with the minority.

Hearings are an opportunity for Congress and the American people to explore important matters of policy together. Whether we agree or disagree on policy, we hold them publicly so that our constituents can understand how we work to better their lives.

This hearing would have served as a forum for Financial Services and Agriculture Members to learn from our panelists and discuss solutions to issue. And given the cross-jurisdictional nature of the work, a joint hearing has been very, very needed.

While I understand the Ranking Member has concerns, but by objecting to this hearing the Ranking Member is undermining the opportunity for these two committees to engage in a conversation of vital importance to the American people. That is a loss for our committees, the House, and the public at large.

Those of us who remain in this room will not sit idly by and abandon the urgent work we have before us, that our committees have set out to do. We will sit together, hear from these good witnesses, and ask questions and learn from your expertise. We will do the difficult work of finding common ground on issues like digital assets that matter so strongly to Americans. We will try not to silence one another over policy disagreements.

This is just the beginning of the discussion, and I look forward to seeing how we can move forward in a bipartisan way. And I yield back to the chair.

Ms. WATERS. Mr. Chairman?

Mr. STEIL. Thank you very much, Mr. Chairman.

Ms. WATERS. Mr. Chairman?

Mr. STEIL. Does the Ranking Member insist upon her objection?

Ms. WATERS. I insist upon my objection, and I would like everyone to join me in CVC Room 217 to discuss what we should be discussing is heard—

Mr. STEIL. The objection to convening this meeting—

Ms. WATERS. Trump's crypto corruption.

Mr. STEIL. The Ranking Member's objection to the meeting is heard. We will now move on to a roundtable.

Mr. LYNCH. Mr. Chairman, may I be heard on the objection?

Mr. STEIL. The Ranking Member of the Subcommittee, Mr. Lynch, is recognized.

Mr. LYNCH. Thank you, Mr. Chairman, and to my colleagues on the Agricultural Committee, as well. Ranking Member Waters has objected to this hearing because of the clear conflicts of interest between President Trump and his family's personal crypto ventures and the legislative proposals our Committee are considering. President Trump and his family are exploiting the presidency to enrich themselves, using their personal crypto business, World Liberty Financial.

Never in American history has a sitting President so blatantly violated the ethics laws—

Mr. STEIL. I ask the Ranking Member—

Mr. LYNCH. Reclaiming my time.

Mr. STEIL. The gentleman was offered a moment to comment—

Mr. LYNCH.—for financial gain.

Mr. STEIL. The gentleman was offered a moment to comment on the objection.

Mr. LYNCH. President Trump's crypto dealings are estimated to be a total of \$2.9 billion—

Mr. STEIL. The gentleman is no longer recognized.

Mr. LYNCH.—and nearly 40 percent of his total wealth—

Mr. STEIL. You will be recognized—

Mr. LYNCH.—between issuing a meme coin, a governance token—

Mr. STEIL. The gentleman, Mr. Lynch, would be noticed if he was in a hearing—

Mr. LYNCH. [Unclear.]

Mr. STEIL.—of which he would have the ability to speak—

Mr. LYNCH.—to proceed to speak over the Trump family to provide every detail of his dealings containing his conflicts of interest.

Mr. STEIL. Ranking Member Lynch, you are no longer recognized by the chair. The gentlelady's objection is heard.

We will now move into a roundtable.

Ms. WATERS. I insist on my objection.

Mr. LYNCH. Will my remarks be entered into the record?

Mr. STEIL. It is too bad for the Ranking Member that it is not a hearing. If it was a hearing, the Ranking Member would be protected by House rules. There was an objection from the Ranking Member of the full Committee—

Ms. WATERS. The Ranking Member insists on her objection. I object.

Mr. STEIL. The objection is heard. The objection is heard, and we will now move into a roundtable. We want to hear from our participants, who traveled to share their expertise with us. And I would ask that participants make brief remarks.

To keep our Members on track, I would also ask that they limit their comments and questions to 5 minutes.

To open the roundtable, I would like to ask Agriculture Subcommittee of Commodity Markets, Digital Assets, and Rural Development Chairman Johnson to offer remarks.

Mr. JOHNSON. Well, a rose by any other name smells just as sweet. This is the second public event these two committees have done together. I think it is a remarkable degree of cooperation and partnership, and I think it builds on the work of last term, where Democrats and Republicans, Ag and Financial Services, worked together to get things done.

And for me today, we get so lost in some of the terminology. What about the *Howey* Test, and what about this, and what about custody, and these things matter. But ultimately, to me, it comes down to two gentlemen, Mark and Mike. The Ag Subcommittee, or maybe the full Committee—I forget—had a really good hearing a couple of weeks ago, where we talked about the real-world applications. And Don Davis was there and helped me manage that Subcommittee hearing, where we talked about the real-world use cases of digital assets and blockchain technology, and how they can enhance the lives of everyday Americans.

Mark Tague, a fourth-generation cattleman in Oklahoma, he co-founded CattleProof to improve those cattle markets. Mike Horton, an engineer in California, developed GeoNet to create an accessible, world-wide precision mapping network. These are real-world problems that these gentlemen have used blockchain technology to help solve. Without tokens, the blockchain wouldn't work and neither CattleProof nor GeoNet would exist.

And so let's not forget these stories as we talk through the CFTC and the SEC and jurisdictional battles and the *Howey* Test and decentralization, exempt offerings, and secondary trading. This legal discussion only matters because if we get it right it will empower entrepreneurs and it will encourage innovation. If we give Americans like Mark and Mike certainty about how to build with digital assets, they will create better services that improve our country.

So, to me, that is really the point of the hearing. The regulatory framework only matters because innovation matters. And I do want to close, Mr. Chairman, by thanking our panelists for traveling here, for taking their time to prepare their remarks, and to help make sure that we get a better product. I want to thank my colleagues on the other side of the aisle who stay here and continue to do their work. Ultimately, the world is run by those who show up, and for Members who have shown up, they are giving a beautiful gift to these committees, to the House, and ultimately to the American people.

With that I yield.

Mr. STEIL. The gentleman yields back. I now recognize the Ranking Member of the Agriculture Committee, Mr. Davis, to offer remarks.

Mr. DAVIS of North Carolina. Thank you, Mr. Chairman, and to the witnesses who are here this morning.

I strongly believe the future of American innovation depends on our ability to lead in the digital economy. Digital assets and blockchain technology are not passing trends. They are foundational technologies with the potential of revolutionizing everything from financial services and supply chains to how we deliver aid, store data, and connect rural communities to global markets.

And if we want to ensure that innovation continues to flourish, we must provide a clear and forward-looking regulatory framework, and that means working to bring certainty to innovators, investor, and consumers. We must clarify the roles of the SEC and the CFTC, reduce regulatory fragmentation, and ensure the rules reflect the unique nature of this technology.

I also emphasize the enormous potential digital assets hold for communities like the ones that I represent in eastern North Carolina. This technology can unlock new pathways for rural development, financial inclusion, and economic resilience. But that can only happen if we create a policy environment that fosters innovation while upholding market integrity and investor protection.

Let's be clear. American leadership in this space is not guaranteed. Other countries are moving quickly to attract talent, capital, and infrastructure. If we do not act with vision and purpose, we risk ceding that leadership, and with it the value that defines our markets. I look forward to working with my colleagues to ensure the United States remains a global leader.

Thank you, and I look forward to hearing from our witnesses, and I yield back.

Mr. STEIL. I thank my colleague for his remarks. I will recognize myself. But before I begin my remarks I would like to acknowledge what just occurred. For over a month, the majority on both the Financial Services Committee and the Agriculture Committees worked in good faith to organize this Subcommittee hearing, designed to foster really meaningful dialogue on digital assets and the legislative solutions needed to close the existing regulatory gaps.

While some of my colleagues have chosen to leave the room, our work continues undeterred.

This legislation is simply too important not to engage in an open and public discussion about how the United States can lead in Web3. I remain hopeful they will soon recognize the stakes and the critical importance of robust, nonpartisan engagement in this process.

More than 15 years ago, a nine-page document, the Bitcoin White Paper, sparked a shift in how we think about money, trust, and value. That idea sparked the digital asset ecosystem. Innovators have since built decentralized networks that offer services once thought unimaginable.

But innovation has not followed a straight line. Outdated regulatory frameworks and a "regulation by enforcement" approach by then-Chairman Gary Gensler and the Biden-Harris Administration have stifled clarity and pushed jobs, investment, and leadership offshore. Worse, the uncertainty has exposed consumers to greater risk from fraud and mismanagement.

Congress has both the opportunity and responsibility to act. We must pass comprehensive, bipartisan legislation that provides clarity and fosters responsible innovation.

Last month, Chairmen French Hill and GT Thompson introduced six core principles that now form the basis of the discussion draft released yesterday. Today's roundtable will evaluate those principles and address key questions about: (1) asset classification, (2) agency jurisdiction over centralized intermediaries, (3) reducing regulatory fragmentation, and (4) establishing guardrails that support innovation.

To me, the path forward is clear. The choices we make now will determine whether the United States remains a global leader in digital finance or if we fall behind.

And I thank our panelists for being here today, and I look forward to a thoughtful and productive conversation.

I will now recognize the Ranking Member of the Committee on Agriculture, Ms. Craig, to offer remarks.

Ms. CRAIG. Thank you so much to our witnesses for being here today. This is a really important conversation.

I am here because I think we need to be engaged in part of the discussion to agree on the rules of the road as they relate to crypto. It isn't going away, and we have a responsibility to be here and be part of the solution.

If we are successful in working together, then legitimate enterprises will innovate and thrive, and consumers and retail investors will be protected. If we fail to find a bipartisan solution to these pressing questions, we will witness more scandals, and consumers will not have the protections that they so clearly need.

It is important and it is legitimate to call out the self-dealing from the Trump Administration related to hawking meme coins from the White House. It is corrupt, it is wrong, and it makes this process of coming together to regulate crypto more partisan than it needs to be. While these conversations may be difficult, they are important for our constituents.

I am pleased that we are moving forward with this roundtable today, and with that, Mr. Chairman, I yield back.

Mr. STEIL. I thank the gentlelady for her remarks. The Chairman of the Committee on Agriculture, Mr. Thompson, is recognized to offer remarks.

Mr. THOMPSON. Thank you, Mr. Steil. For 2½ years, our committees have worked together on legislation, writing rules of the road for digital asset markets. I am proud of what we accomplished last Congress, with FIT, and it is a great example of what can happen when we work together.

Unfortunately, today is an example of what happens when we cannot work together. We wind up with a second-best solution. But the discussion today will go on. I appreciate all our colleagues who have chosen to make time for these witnesses and this discussion today. We have a rare opportunity to make law this Congress and to be the authors of legislation which will change the way we use the internet and how we interact in the digital commodity.

I want to thank Chairman Hill, Chairman Steil, and the entire membership of the Financial Services Committee for your continued partnership in this work.

I would also be remiss if I didn't recognize our terrific Committee leadership and Ranking Member Craig, Chairman Johnson, and Ranking Member Davis. We are blessed with an abundance of thoughtful legislators who are eager to work on digital asset legislation.

Finally, welcome and thank you to our witnesses, and I especially want to welcome back to Chairman Behnam. I appreciate all the time and effort you each have spent preparing for today, and I look forward to the discussion and yield back the balance of my time.

Mr. STEIL. The gentleman yields back. Does the Subcommittee chair, Mr. Lynch, are you interested in offering comments?

Mr. LYNCH. I am. I would like to address the roundtable, which I did not before.

Mr. STEIL. I will recognize that.

Mr. LYNCH. Thank you, Mr. Chairman. President Trump's crypto dealings are estimated to total about \$2.9 billion in value and nearly 40 percent of his total wealth. Between using his meme coin, governance token, and USDE stablecoin, of which 75 percent of the proceeds go to the Trump family, every detail of his dealings contains a conflict of interest.

Last week, *The New York Times* released an extensive investigation outlining President Trump's many conflicts of interest. To put it bluntly, I quote, "World Liberty Financial has eviscerated the boundary between private enterprise and government policy in ways without precedent in American history."

I know this hearing, this gathering has been planned for a while, but last Thursday, in a meeting in Dubai, Trump's family's company made a deal with a Dubai investor to invest \$2 billion that will benefit the Trump family.

I understand crypto. I understand the other issues here. But this is a mechanism by which other people outside, foreign interests, can actually influence our President, not just this one but in the future, as well. And I think that is a relevant issue before this forum.

Thank you. And I do thank the witnesses for their willingness to come here and assist the roundtable with its work. Thank you, Mr. Chairman, and I yield back.

Mr. STEIL. The gentleman yields back. The Chairman of the Financial Services Committee, Chairman Hill, is recognized.

Mr. HILL. Thank you, Chairman. I want to thank our witnesses again for your missions, to share your views with us today.

As noted, look, we provided the minority 6 weeks of notice and lavishly structured a joint process between the Ag Committee, the Financial Services Committee, mi-

nority, and majority. So I just continue to be disappointed in Ranking Member Waters' decision to exit the meeting and objection.

In the 118th Congress we made tremendous progress. We made significant strides to build bipartisan, bicameral consensus on how to craft a regulatory framework for digital assets. Seventy-one Democrats in the last Congress joined Republicans in passing last Congress' regulatory framework view, that Mr. Thompson and I offered, FIT21. It is the precursor of the work we are doing here today. We have turned the page. We are approaching it in a fresh way, and this roundtable is essential to getting new views on how to go in a different direction.

To my friends on the other side of the aisle, our door is always open. No regulatory framework that is fit for purpose for digital assets, that provides oversight, development, and innovation in America, that is a failure, just as no clarity for what is a quality, dollar-backed stablecoin, if we don't do that, that is a failure, because that leaves the regulatory gap, that was pointed out thoroughly by both President Biden and President Trump. And this Committee, working together with Ag and Financial Services on a bicameral, bipartisan basis, we are going to get the job done.

And I want to thank all of you for being here today. I want to thank our chair, and I will yield back.

Mr. STEIL. The gentleman yields back. I would like to briefly introduce our participants today.

Mr. James Rathmell is General Counsel at Haun Ventures, a venture capital firm that supports cryptocurrency-related startups.

Mr. Alex Miller is the Chief Executive Officer at Hiro Systems, a company that provides infrastructure and tools to developers building a digital global economy on top of Bitcoin.

Mr. Daniel Davis is Partner and Co-Chair of Financial Markets and Regulation at Katten Muchin, and is the former General Counsel at the Commodity Futures Trading Commission.

Mr. Greg Tusar serves as Vice President of Institutional Products at Coinbase, where he leads the development of the firm's efforts in prime brokerage, in custody, financing, and exchange.

The Honorable Rostin Behnam, a Distinguished Fellow at the Psaros Center, Georgetown University, and former Chairman of the U.S. Commodity Futures Trading Commission.

We thank you all for taking your time to be here, and if you would like to each make some remarks we will just go from the left to the right, starting with Mr. Rathmell.

**STATEMENT OF JAMES RATHMELL, J.D., GENERAL COUNSEL, HAUN VENTURES MANAGEMENT LP, MENLO PARK, CA**

Mr. RATHMELL. Chair Steil, Chair Johnson, Ranking Members Lynch and Davis, and Members of the Subcommittee, thank you for the privilege of speaking today.

My name is James Rathmell, and I am the General Counsel of Haun Ventures, a venture capital firm founded by Katie Haun, who was a Federal prosecutor and a General Partner at Andreessen Horowitz. Prior to Haun Ventures, I was in legal practice, where I primarily focused on securities offerings of all kinds, from venture capital financings to IPOs to capital markets transactions.

At Haun Ventures, we invest in teams building with frontier technology. We believe crypto, *i.e.*, cryptographic primitives with economic incentives, has the potential to modernize financial infrastructure and digital ecosystems. With new primitives, money, assets, and markets can become like everything else on the internet—transferable at the speed of information, accessible, programmable, and auditable.

Our portfolio companies reflect the ambition of this moment. Plume is streamlining the tokenization of real-world assets with built-in legal and compliance tools. BVNK uses stablecoins and decentralized infrastructure to make global payments for businesses as seamless as sending an email.

Aleo embeds infrastructure for digital identity and authentication while protecting the sensitive data of everyday users. And Farcaster is reimagining social media by returning control to users and developers through decentralized protocols.

These teams want to build and expand in the United States, but they need clarity to do so, not special treatment, just consistent rules that reflect how these systems actually work.

At the heart of today's hearing is something deceptively simple: digital assets. A digital asset is not inherently a stock, currency, or investment contract. In many cases it is something entirely novel: a computing primitive that evolves over time

and serves multiple purposes, depending on the context. We need legislation that accounts for the unique properties of digital assets and evolves with them.

But why are existing laws inadequate to meet the present need? A token might start its life primarily as a mechanism for capital raising, with the initial transactions involving security-like characteristics. But as adoption grows, that same token may evolve to primarily serve other functions: as a means of payment, as a governance mechanism, or to provide access to services on a protocol.

This evolution isn't incidental. It is the explicit goal of many projects. They aim to decentralize over time, becoming governed by open-source communities and secured through trustless consensus. Digital assets are the bedrock of this incentive mechanism.

A successful legal framework must accommodate this transition. If done right, it can unlock more resilient, transparent, and accessible financial and digital infrastructure.

It is not the case that digital asset issuers refuse to comply with the law. Our industry has tried every single pathway available under existing securities laws to conduct a token offering. But a core reality remains: protocols depend on liquid markets, price discovery, community participation, and disintermediation. Existing law simply doesn't contemplate this. That is the legal black hole that many projects face today.

So what would a better blueprint look like? We need a graduated framework that adapts to a project's lifestyle. Early on, lightweight disclosure regimes can help address information asymmetries. As networks mature and decentralize, the focus should shift to market integrity and price discovery.

Moreover, decentralized networks have incredible amounts of high resolution, real-time data. Our portfolio company Artemis, for example, has developed tools for parsing and analyzing this data, everything from market statistics to developer activity to application usage.

U.S. financial regulators were early movers in the 1980s and 1990s to adopt electronic systems and make data freely available through the internet. Here, too, they should lead and work with the private sector to ensure that on-chain data is standardized and disseminated into the market.

The United States has led before. In the 20th century, we built the world's most dynamic capital markets by balancing investor protection with financial and technological innovation. We have the opportunity to do that again with crypto. If we don't act, innovation won't wait. It will simply move elsewhere. And we will lose not only economic opportunity but also the chance to shape the rules of the road according to our values.

We believe that the future of capital markets, the global financial system, and the internet will run on open-source blockchains. So what is at risk is not just American innovation in the digital asset space, but ceding our hard-won leadership role in traditional markets, as well.

This Congress has a historic opportunity. The blueprint you create today will determine whether the next generation of digital asset innovation happens here or abroad.

Thank you, and I look forward to your questions.

[The statement of Mr. Rathmell follows:]

PREPARED STATEMENT OF JAMES RATHMELL, J.D., GENERAL COUNSEL, HAUN VENTURES MANAGEMENT LP, MENLO PARK, CA

Chair Steil and Chair Johnson, Ranking Members Lynch and Davis, and the distinguished Members of both Subcommittees, thank you for the privilege of testifying today.

My name is James Rathmell, and I'm the General Counsel at Haun Ventures, a venture capital firm founded by Katie Haun, who served as a prosecutor in the Department of Justice for over a decade and was a General Partner at Andreessen Horowitz. Prior to Haun Ventures, I was in legal practice, where I primarily focused on securities offerings of all kinds, including venture capital financings, IPOs, and capital markets offerings by established public companies.

At Haun Ventures, we invest in teams innovating with frontier technology. We believe that crypto, which we define as decentralized cryptographic primitives paired with economic incentives, holds the potential to modernize financial infrastructure and digital ecosystems. With new cryptographic primitives, we believe money, assets, and markets will become like everything else on the internet: transferable at the speed of information, accessible, programmable, transparent, and auditable. This is made possible because of decentralized protocols, which are designed differently from both existing internet platforms and existing financial net-

works—in that they leverage digital assets, the subject of today’s hearing, for economic incentives and coordination. Furthermore, decentralized protocols are often built on open-source code, enabling transparency, innovation, and competition as the best ideas rapidly proliferate into superior product offerings.

Our portfolio companies reflect the diversity and ambition of this moment. The founders behind these projects are building and expanding in the United States, and they are asking for a clear, consistent set of rules so they can build with confidence. Clarity isn’t about giving them special treatment, it’s about giving everyone, from developers to investors to users to regulators, a shared understanding of how these systems work and how we will ensure fair market participation.

Our portfolio company Plume is pioneering the tokenization of real-world assets, streamlining the complex process of bringing real estate, commodities, and financial instruments onchain and integrating relevant legal, regulatory, and compliance standards directly into its infrastructure. Another portfolio company, BVNK, uses stablecoins and decentralized infrastructure to make global payments for businesses as fast and seamless as sending an email, something traditional systems still fail to do.

Beyond finance, Aleo is a new blockchain that embeds privacy-preserving computing and infrastructure to protect sensitive consumer data and security; this technology provides the basis for a new and more secure digital identity, which can in turn be leveraged to combat problems like authentication and deep fakes. And our portfolio company Farcaster is helping reimagine social media through an open, decentralized protocol that returns control and data to users and developers.

At the heart of today’s conversation is something deceptively simple: digital assets. Much of the confusion in current law—and the frustration felt by entrepreneurs—arises from the fact that we are dealing with a new asset class not contemplated by existing frameworks. A digital asset is not inherently a stock, or investment contract, or a currency. In many cases, it’s something entirely novel: a new computing primitive that can represent many different things depending on the context in which it’s used, and which can evolve over time.

This is why we need legislation that recognizes the unique characteristics of digital assets and offers a framework that evolves with them. Digital assets are not just financial instruments—they are building blocks for a new digital and financial system. They can carry value, confer rights and privileges, enforce rules, and facilitate coordination at scale.

The title of today’s hearing is apt. What we urgently need is a blueprint—an architectural schematic—for the next century of American innovation to unlock the inherent potential of digital assets. We cannot reasonably expect that the blueprint from which we built the house of 20th century American innovation will do the job.

In 1996, the jurist and legal scholar Frank Easterbrook famously delivered a lecture titled “Cyberspace and the Law of the Horse,” in which he argued that we did not need new ways of legal thinking with respect to the internet, any more than we needed an entire branch of study dedicated to equine law: “Lots of cases deal with sales of horses,” Easterbrook said, “others deal with people kicked by horses; still more deal with the licensing and racing of horses, or with the care veterinarians give to horses, or with prizes at horse shows. Any effort to collect these strands into a course on ‘The Law of the Horse’ is doomed to be shallow and to miss unifying principles.”<sup>1</sup> Easterbrook’s conclusion was that novel and unique legal frameworks for the internet were superfluous.

Of course, this conclusion was wrong in 1996 as the internet was emerging, and it remains wrong now that the total amount of economic activity on the internet measures in the trillions of dollars per year. The laws governing the internet are of paramount national and global concern, and the lesson from the past 30 years is that we need to continually sharpen our thinking to meet the present moment of technology. Easterbrook’s words also sound eerily familiar to those of us in the digital assets industry, who have long been told that crypto entrepreneurs should simply *abide by the existing rules*. Like the internet before it, digital asset innovation warrants a tailored approach that respects longstanding legal principles, while adapting them to meet the moment. We’re grateful to the Members present here today for tackling this challenge head-on.

But why are existing laws inadequate to meet the present need?

Perhaps the most challenging aspect of regulating digital assets is that the same token can serve multiple functions simultaneously. A token might start its life primarily as a mechanism for capital raising, with the initial transactions involving security-like characteristics. But as the network develops and adoption grows, that

<sup>1</sup>Frank H. Easterbrook, “Cyberspace and the Law of the Horse,” University of Chicago Legal Forum (1996).

same token may evolve to primarily serve other functions—as a means of payment, a governance mechanism, or to provide access to services on a network or protocol.

In fact, this evolution is not merely incidental. Rather, it is the explicit goal of many digital asset projects. They aim to transition from centralized development efforts to decentralized networks, which are governed by their communities and secured through game theoretic incentive mechanisms. These networks ultimately rely on trustless consensus—where participants reach agreement without relying on intermediaries—and digital assets are the bedrock of this mechanism. A successful legal and regulatory framework must accommodate this transition rather than stifle it, because enabling decentralized innovation can unlock more resilient, transparent, and broadly accessible financial and digital infrastructure.

Of course, one way that digital assets can be used is for capital raising purposes—so that a project can hire people, lease office space, and pay for development costs. For those seeking to raise capital in a traditional securities offering, there are a few pathways.

The most frequently used, especially for venture-backed companies like the ones in our portfolio, is Regulation D. Reg D was adopted in 1982, and allows an organization to conduct a private securities offering without registering with the SEC, as long as the sales are to accredited investors of a certain income bracket, net worth, or degree of professional licensure. Reg D is an incredible success story: many of the world's largest and most innovative companies were originally seeded from venture capital investments under the Reg D exemption. From July 2022 to June 2023, over 19,000 operating companies relied on Reg D to raise more than \$275 billion.<sup>2</sup>

However, Reg D is not without its drawbacks. For one, a typical Reg D offering consists of a highly negotiated and bespoke set of legal documents, costing tens or hundreds of thousands of dollars in legal fees to paper. Moreover, and as I will discuss in greater detail below, private securities lack liquid markets and therefore efficient price discovery. Finally, Reg D offerings do not enable broad community participation.

These drawbacks led to the creation of two other exemptions signed into law in 2012. Regulation A+, also known as Reg A+ or the “mini-IPO”, was designed to facilitate access to capital for early-stage and mid-stage companies and to bridge the gap between private and public markets by allowing broader investor access. Regulation Crowdfunding, also known as Reg CF, was built to support small businesses and startups that may not attract institutional capital but have strong community support.

Unfortunately, Reg A+ and Reg CF have been mostly unsuccessful at achieving these goals, representing less than 1% of private capital raised in recent years.<sup>3</sup> Commissioner Uyeda at the SEC, who himself worked on the proposing and adopting releases for Reg CF a decade ago, recently concurred with the assessment that Reg CF has failed as a mechanism for low-cost capital formation by startups and small businesses, since an offering can cost more than \$500,000 in fees despite a total offering cap of just \$5 million.<sup>4</sup>

And then of course, there are public offerings. Today, an IPO will typically cost millions or even tens of millions in fees paid to lawyers, accountants, FINRA, the exchanges, transfer agents, and the SEC itself for filing and registration.<sup>5</sup> This does not include ongoing legal and compliance costs of being a public company, which can be in the millions of dollars per year. Leaving digital assets aside for a moment, these compliance costs are one reason we have seen the number of publicly listed companies decline by 50% since the late 1990s.<sup>6</sup>

It's important to note that every single one of these pathways—Reg D, Reg A+, Reg CF, and IPO—has been tried by digital asset issuers. It is simply not the case

<sup>2</sup>Mark T. Uyeda, Commissioner, U.S. Securities & Exchange Commission, “Remarks at the 51st Annual Securities Regulation Institute” (Jan. 22, 2024), <https://www.sec.gov/newsroom/speeches-statements/uyeda-remarks-securities-regulation-institute-012224>.

<sup>3</sup>David Krause, “Why Aren't Reg A Offerings More Popular Among Small Businesses?,” The CLS Blue Sky Blog (Apr. 27, 2023), <https://clsbluesky.law.columbia.edu/2023/04/27/why-arent-reg-a-offerings-more-popular-among-small-businesses/>.

<sup>4</sup>Uyeda, *supra* note 2 (“In 2012, the JOBS Act introduced the concept of crowdfunding into the Federal securities laws, and in 2015, the Commission adopted Regulation Crowdfunding (“Regulation CF”). I worked on both the proposing and adopting releases for Regulation CF. Almost 10 years later, has Regulation CF achieved its intended goal of ‘provid[ing] startups and small businesses with capital by making relatively low dollar offerings of securities . . . less costly’? Unfortunately, the answer is ‘probably not.’”)

<sup>5</sup>PwC, “Considering an IPO? First, understand the costs,” <https://www.pwc.com/us/en/services/consulting/deals/library/cost-of-an-ipo.html>.

<sup>6</sup>Wes Moss, “The Decline In U.S. Stocks To Choose From: What It Means For Investors,” *Forbes* (Feb. 3, 2025), <https://www.forbes.com/sites/wesmoss/2025/02/03/the-decline-in-us-stocks-to-choose-from-what-it-means-for-investors/>.

that market participants have defiantly refused to comply with existing laws. However, beyond the substantial costs to lawyers, auditors, and others, as well as the inadaptability of disclosure-based regimes for the particularities of digital assets,<sup>7</sup> an existential risk looms over those who have tried to shoehorn digital assets into existing securities laws: the need for liquid markets.

If you look at the largest decentralized blockchains today—Bitcoin, Ethereum, Solana—it is strictly necessary to acquire the associated digital assets (*i.e.*, BTC, ETH, SOL) to use and participate in the corresponding network. If we followed Google from its venture-backed origins through its 2004 IPO, there was never a moment in which everyday users needed to own and spend Google stock to run searches; where the price of Google stock was instrumental to secure Google.com or incentivize users to improve the software; or where the lack of an active trading market in Google stock directly imperiled the functionality of the search engine.

Meanwhile, liquid markets with robust price discovery are an essential, non-negotiable precondition for the successful functioning of crypto protocols. This is the legal black hole many projects find themselves in: perhaps a project may find a way to conduct a digital asset offering under an existing pathway—even one that is costly and poorly suited to the unique characteristics of tokens—but often there is no viable next step if the asset lacks a functioning market to support its transfer, sale, and use for the intended purpose on a network or protocol.

Ensuring that digital assets and decentralized systems can operate as designed will benefit all market participants—both institutional and retail. The current regime, characterized by excessive compliance costs, high barriers to entry, and a reliance on multiple intermediaries, is not only impeding innovation but also failing to deliver on its core promises. It is ill-equipped to address the unique attributes of digital assets and, as a result, is falling short on both consumer protection and market integrity.

So what could be a better blueprint? Any market structure legislation will need a fit-for-purpose regulatory regime that evolves with project maturity. This would recognize the changing nature of digital assets throughout their lifecycle and apply appropriate oversight at each stage.

During the earliest stages, when a project is raising funds and beginning development, we should look to lightweight disclosure-based regimes to address information asymmetries between insiders and the public. Rather than shoehorning digital assets into ill-fitting securities laws, we should create a new pathway specifically designed for digital assets that address their unique risks and opportunities. For instance, many projects are open-source—meaning that the source code is available for anyone with sufficient technical knowledge to analyze and use. This is quite different from the information asymmetries that exist with securities, where issuers and their insiders may have specialized knowledge about a company that needs to be disseminated into the market to create an even playing field.

As a network launches, decentralizes, and matures, the regulatory focus should shift accordingly to ensure market integrity, liquidity, and efficient price discovery. This is the only way networks and protocols will achieve their true potential. Such a graduated approach would provide the clarity entrepreneurs need while ensuring appropriate protections for market participants at each stage. It would recognize that the same token can have different regulatory and policy implications at different points in its lifecycle.

In the 20th century, the United States did the world a profound service by building the most reliable, transparent, and robust capital markets in history—through a regulatory approach that balanced investor protection with innovation. We have the same opportunity with crypto. If we fail to seize it, that innovation will not wait; it will simply happen elsewhere. And if it does, we risk not only ceding economic opportunity but also the ability to shape the rules of the road in a way that reflects our values.

I believe this Congress has a historic opportunity to establish a framework that will secure American leadership across both financial and non-financial use cases in our industry for decades to come. The blueprint we create today will determine whether the next generation of digital asset innovation happens here in the United States or elsewhere.

For the sake of our economic competitiveness, national security, and the millions of Americans who stand to benefit from these technologies, I urge you to seize this opportunity.

<sup>7</sup> Paul Grewal, Faryar Shirzad, and Thaya Knight, “Digital Asset Securities Regulation: A Petition for Rulemaking from Coinbase,” Harvard Law School Forum on Corporate Governance (Aug. 1, 2022) <https://corpgov.law.harvard.edu/2022/08/01/digital-asset-securities-regulation-a-petition-for-rulemaking-from-coinbase/>.

Thank you for your time, and I look forward to your questions.

Mr. STEIL. Thank you very much.

Mr. Miller, you are recognized to share your remarks.

**STATEMENT OF ALEX MILLER, CHIEF EXECUTIVE OFFICER, HIRO SYSTEMS; PARTNER, CHAOTIC CAPITAL, BOZEMAN, MT**

Mr. MILLER. Thank you. Chair Steil, Ranking Member Lynch, Chairman Johnson, Ranking Member Davis, good morning. Thank you for inviting me today.

My name is Alex Miller, and I am the CEO of Hiro Systems. I have spent the last 15 years of my career on one thing, which is helping builders build. Our mission at Hiro is to enable developers to build a global, seamless, decentralized and interconnected economy on top of Bitcoin via the Stacks network, a fully decentralized blockchain that is one of the oldest and largest Layer 2s to Bitcoin. It provides the speed and programmability that doesn't exist on Bitcoin but helps bring it to everyone and actually bring it the scale and capacity to be used.

Why I am really here today, though, is that Hiro is a little bit unique. We have been not only very proudly based in the U.S. since our founding, but when we built the first version of the Stacks blockchain about 7 years ago, which was known as Blockstack at the time, we ran the first, and I believe we are the only company still around to have run an SEC-qualified, Regulation A offering for tokens.

We believed deeply, from the beginning, that for a project to have the firmest base to be a generational project it needed to be built the right way, decentralized with trust and within compliance to the laws, so that there was no question that it would remain around. And for that reason we chose to make the initial offering of STX, which is the token that is used for gas and to create the incentives that are necessary for any decentralized system to work via Regulation A, so that everyone, not just the accredited investors who traditionally make up Reg D or the international investors who make up Reg S offerings, could participate.

Unfortunately, we ran headlong into the challenge that is trying to fit the square peg of new technology into the round hole of the current law. Due to the lack of a clear regulatory structure, trying to do it the right way has cost us, at this point, more than the \$15 million that we raised through that Regulation A offering. If we had not raised also through Reg D and Reg S, we would have spent every penny that we had simply trying to come in and register.

It has caused to have to create suboptimal compliance structures, that has made the experience worse for the users and developers on this network. And it has put us at a competitive disadvantage to projects based outside the U.S. who are less decentralized and less transparent.

Hiro was built by developers and for developers, and we proudly—proudly—believe in the power of free markets and decentralized technology to unleash the creativity and lift millions out of poverty. We, as a society, have hundreds of years to show how important predictability and certainty is to business. And just because the technology is different does not mean that the needs of entrepreneurs and builders are any different than they were 100 years ago.

While there have undoubtedly been bad actors in crypto, the current regulatory ambiguity helps them at the expense of honest actors and good projects. Clear regulatory frameworks will enable ethical projects to flourish, while ambiguity helps that aren't.

So my ask of you today is this: give builders the regulatory clarity that they are asking for, with fit-for-purpose, cost-effective structures that let them get back to building while providing disclosures, transparency, and confidence to investors. Doing so will encourage this ethical innovation, protect consumers, and most importantly, reassert America's position as a global leader in technology.

Again, thank you for having me today, and I look forward to discussing this more with you.

[The statement of Mr. Miller follows:]

**PREPARED STATEMENT OF ALEX MILLER, CHIEF EXECUTIVE OFFICER, HIRO SYSTEMS; PARTNER, CHAOTIC CAPITAL, BOZEMAN, MT**

**I. Introduction**

Chairman Steil, Ranking Member Lynch, Chairman Johnson, Ranking Member Davis, and Members of the Subcommittees:

Thank you for inviting me to testify at today's hearing. My name is Alex Miller, and I am the CEO of Hiro Systems PBC, a company that makes tools for developers building decentralized applications on top of the Bitcoin and Stacks blockchains.

I've spent the last 15 years of my career helping software developers build new technology. This includes 8 years at Stack Overflow, the largest knowledge-sharing community in the world for developers, where I ran numerous parts of the business that enabled more than 50 million people per month to collaborate with their co-workers and strangers around the world. I've also been a founder, employee, advisor, or board member of startups and nonprofits both large and small.

I'm an ardent and true believer in the power of free markets to unleash human potential. There has never been a force as powerful for improving the lives of billions of people as the last hundred years of capitalism and markets, which has allowed the ingenuity and creativity of builders to unleash a pace of advancement we've never seen before.

At Hiro, we believe that the more you can enable easy, fast, and simple interactions between people, the more you can build and the more opportunity you can create for everyone. Blockchain technology has the potential to do this by facilitating more efficient, distributed, and secure financial transactions for consumers and financial institutions across the globe. We in the United States are fortunate to have access to legal and capital markets that many across the world do not—markets that have helped maintain our position as the technological and economic leader for generations. The potential of blockchain technology to create open markets globally is what makes its development an inevitability; there is too much promise and potential for it not to happen. The only question is whether the U.S. will be at the forefront of this next evolution, embedding our values in its DNA, and once again harness technology to increase our prosperity.

We also believe in building it right. Hiro was the first company, and the only still-operating, to qualify a Regulation A offering with the Securities and Exchange Commission (SEC) for sales and distributions of tokens,<sup>1</sup> an integral part of blockchain networks. That experience gives us a unique ability to provide insights into what needs to change to support development of the industry.

We believed from the outset that our network and operations needed to comply with the Federal securities laws and regulations. We found, however, significant roadblocks and a lack of clarity within the SEC's processes, which were unnecessarily time consuming because they involved repetitive rounds of inquiries and apparent lack of coordination. In addition, when we sought to exit the reporting regime, the SEC staff could not provide clear guidance on when and how to do so. Hiro was also ill-served by the absence of a clear pathway for sales of its digital assets on exchanges. Further, some of the disclosure and financial reporting requirements imposed on Hiro were onerous without providing token purchasers and holders meaningful protections.

Hiro's experience reveals unnecessary obstacles that, in our view, Congress could help alleviate by taking the following steps:

- Congress should provide a regulatory framework and mandate that the SEC adopt rules for digital asset offerings that are clear, appropriate for the unique nature of digital assets and their networks, and minimizes uncertainty.
- Congress should adopt, or require the SEC to adopt, a clear legal standard for exiting any registration, qualification, or reporting regime for digital assets—including because a network is “decentralized” and so should no longer appropriately be responsible for ongoing reporting, as discussed below.
- Congress should adopt rules to clarify that programmatic sales of digital assets (*i.e.*, preprogrammed sales made through exchanges in blind bid/ask transactions) by an issuer are not securities transactions subject to the Federal securities laws and specifically SEC registration or qualification.
- Congress should require the SEC to adopt standards for disclosures and financial information that evolve over the lifecycle of a project so as to provide purchasers appropriate material information about blockchain networks and digital assets but not be overly burdensome on issuers, particularly those that are early-stage companies.

Separately, from the disclosure considerations, in order to foster the most vibrant open ecosystem, Congress should protect the right for developers to contribute to the deployment of open-source software without attribution of liability for third party use.

<sup>1</sup>Hiro qualified its token offerings under Regulation A under the Securities Act of 1933, which is an exemption designed to enable companies to raise capital without incurring the more burdensome registration and reporting requirements applicable when a company conducts an initial public offering. We believe the lessons of our experience apply not only to Regulation A but other offering mechanisms that the SEC or Congress might consider for digital assets.

I discuss these requests in more detail below.

## II. Hiro's History and Background on the Digital Asset Offering Process

Hiro's mission is to provide developers crucial infrastructure and tools needed to create applications and utilities using a layered solution, with Bitcoin's network at the base, that will, in turn, build a stronger digital global economy and facilitate better, more efficient transacting. Hiro, then known as Blockstack, began by building the first version of our "Stacks" blockchain, which was deployed in October 2018. Stacks is one of the first, and still largest, Bitcoin Layer 2 blockchain networks to work towards the vision of scaling the Bitcoin network for billions of users and millions of transactions per day. Because all blockchain infrastructure has limitations as to how much activity they can support, "Layer 2" networks like Stacks exist to bring additional functionality and scale to the most well-known public blockchains (like Bitcoin), by allowing more transactions to happen faster and for a lower cost on a separate chain, before being combined into a single transaction on the base blockchain for ultimate security.

Like many blockchain networks, to enable an open and permissionless system, the Stacks blockchain needs a mechanism to provide incentives for miners to perform key functions; as a result, the first version of the network introduced the Stacks token, referred to as STX, which offers a reward for those constructing and validating transactions. Without an incentive mechanism like STX, decentralized networks like the Stacks network simply cannot function. At the time, although we disagreed with this view, the SEC viewed all tokens, such as STX, as securities subject to its jurisdiction, which meant we needed to distribute the STX in compliance with applicable SEC regulation.

**We believed deeply from day one that for a generational project to have the strongest base and legitimacy, it needed to be built the "right way"—leaving no doubt about its legal compliance and with open access to all.**

For that reason, we chose to make the initial offering of STX through a qualification process with the SEC, under Regulation A. The goal was that anyone, not just the traditional venture capital and institutional investors who can usually invest in an exempt, unregistered offering, could participate. We were the first, and are now the only still-operating, company to complete a token offering qualified by the SEC.

In choosing this path, we hoped to encourage participation in the network and show it was possible for a U.S. company to raise capital through a digital asset with regulatory certainty.

We did not, however, anticipate the difficulty we faced engaging with the SEC in our effort to qualify the token offering. Our process was filled with uncertainty and was extremely protracted, lasting 12 months, far beyond a more typical registration process. This came at tremendous cost to the company—\$2.8 million from initiation of the offering process through qualification—and undercut confidence within the industry that engaging with the SEC or its Staff is a good idea.

## III. Lessons Learned

We approached the SEC with the intention of complying with the Federal securities laws. To date, we have spent well more than \$15 million dollars on the offering process, compliance with the reporting regime, and our defense against an unwarranted investigation triggered by our attempts to work with the Staff. **That amount represents more than the entire amount raised through the offering.** Though we walked willingly into the SEC's doors, we were in many ways left with a competitive disadvantage relative to other projects, especially those based outside the U.S.

Based on our experience, I believe that there is limited efficacy for existing registration and qualification processes as a mechanism for a tailored disclosure regime without significant substantive amendments. Below are a number of considerations for future legislation or regulation to address the challenges we encountered.

### A. Congress Should Provide a Regulatory Framework and Mandate that the SEC Adopts and Implements Rules for Digital Asset Offerings

Congress should pass legislation requiring the SEC to adopt and implement rules for digital assets that are clear, appropriate for the unique nature of digital assets and their networks, and minimize uncertainty. Providing clear rules of the road for these entities and assets will enable a more normal process for the offering.

Blockstack did everything it could to facilitate collaborative discussions with the SEC. We initially engaged with the SEC Staff on a number of regulatory concerns and provided analysis with our positions on issues we thought would be of concern to the Staff, with the goals of assuring the Staff of our thoughtful and collaborative approach and receiving constructive feedback regarding their concerns. Following

several rounds of productive conversations, the Staff agreed that it was appropriate for us to file our application for potential qualification of the offering, and we started speaking with the Staff responsible for reviewing filings.

This began a long and arduous process. Unfortunately, there was no apparent overlap between the Staff in our initial meetings and the Staff responsible for the review of Regulation A filings, which had evidently not seen the analysis we circulated. This necessitated additional time to discuss the same subset of issues repeatedly. In fact, throughout the process, new Staff were introduced into the conversations on an ongoing basis many times, typically without background or briefing, leading them to submit the questions and comments we had already answered and/or re-open topics that were previously (we thought) closed. We exchanged more than 15 rounds of comments (both written and verbal) with the Staff of different divisions of the SEC during this time. By contrast, registered initial public offerings typically take much less time—it is more typical to have 2–3 rounds of comments, even when a company is raising orders of magnitude more money.

If Congress were to adopt, or direct the SEC to adopt and implement, rules for digital assets that are clear and appropriate for the unique nature of digital assets and their networks, it would minimize uncertainty about its disclosure and financial reporting requirements and reduce the need to engage on compliance questions and seek guidance. This could help prevent the long and costly process Hiro endured.

#### *B. Congress Should Codify a Clear Off-Ramp from Registered Or Qualified Offerings for Decentralized Network Creators*

As part of any legislation passed, Congress should provide a means to exit registration or qualification and related reporting. Hiro’s difficulties also exemplify how critical that would be to the industry.

Once Hiro’s offering was qualified, we determined that we would, within a short period of time, achieve a “decentralized” network and may not appropriately be responsible for ongoing reporting regarding the STX tokens and network. The premise was that once the network operated independently of Hiro, the need for disclosures would be obviated, because Hiro would no longer have the ability to primarily or materially influence the value of the STX relative to others involved in the network. Hiro also would no longer have nonpublic insights into factors related to the STX or the network that should be communicated to token holders.

We therefore again engaged with the Staff to discuss our thoughts on the level of decentralization that we believed would be fulfilled based upon anticipated technical, operational, and economic changes to the network. Version 2 of the Stacks blockchain, released in January 2021, contained a wide variety of upgrades, including, in our view, fully decentralizing it such that Hiro could no longer control any subsequent changes to the network.<sup>2</sup>

Hiro provided notice to the Staff and token holders through filings that disclosed Hiro’s plan to file the Form 1–Z “Exit Report” (to cease its Regulation A reporting obligations) 6 months after it determined that decentralization was achieved. Following the launch of the decentralized version of the network in January 2021 and several additional months of discussions, Hiro informed the Staff of our intent to file our Form 1–Z in July 2021.

Almost immediately, Hiro’s engagement with the Staff stalled until, shortly thereafter, the SEC’s Enforcement Division opened an investigation into Hiro related to ‘potential securities violations’. In other words, our efforts to participate in a collaborative process appeared to send us down the path to a costly referral to enforcement.

At no time did the SEC articulate what supposed securities violations they were investigating, just wide ranging and scattered ‘requests for information’. Hiro faithfully complied with all enforcement-related requests spanning a period of 3 years. We spent more than \$2.5 million in legal costs and countless hours responding. Each time the pattern was the same: the SEC would send a request, we would comply, and the Enforcement Division would go silent for months, until the next request. This pattern continued until the SEC’s investigation was suddenly and unexpectedly closed on July 9, 2024. Hiro continued to meet its reporting obligations under Regulation A until the filing of our Exit Report on January 8, 2025, which we had delayed during the investigation out of caution (meaning that we also incurred ongoing reporting costs in the interim).

<sup>2</sup>Muneeb Ali, *Stacks Cryptocurrency Expected To Reach Non-Security Status in the United States* (December 7, 2020), <https://blog.blockstack.org/stacks-cryptocurrency-expected-to-reach-non-security-status-in-the-united-states>. Relevant factors included owning less than 10–15% of the tokens, requiring token holder consent for changes (which could be proposed by anyone), integration of significant numbers of non-affiliated miners, and many others.

It is critical that any regime that requires regulatory approval or other action for distribution of digital assets provide a clear and realistic way to exit that regime. We continue to believe, consistent with prior statements by the SEC and its staff and our own experience building a blockchain network, that once a system is decentralized, an issuer should no longer appropriately be responsible for ongoing filings. However, the uncertain and broad boundaries of what constitutes “sufficient decentralization” (including as referenced under the SEC Staff’s 2019 Framework for Digital Assets) materially constrained Hiro’s ability to take actions to exit the Regulation A reporting regime with certainty.

The process Hiro experienced was exceedingly costly to both Hiro and users, and it is unclear what the benefit has been to STX holders. Every substantial business decision required consulting with lawyers. More importantly, to avoid any or all implications that we could somehow control or materially influence the network, we have avoided activities we were concerned could be viewed as technical foot faults, such as providing STX as consideration in service provider contracts without twelve month holding periods. Each of these decisions has come at a cost to us and users—for example, by limiting liquidity of the assets—without any obvious upside. We have also foregone opportunities within the scope of our entrepreneurial enterprise best suited to our unique and critical subject matter expertise, in the fear that any potential influence over the development of the network at all would threaten the Staff and the SEC’s view of our status.

I truly do not believe users or investors are well served by developers who effectively and fully renounce their project in the “name” of decentralization, which is what we believed we needed to do in light of our experience. Instead, we recommend focusing on parameters for decentralization that limit that misalignment between developers and users by allowing involvement of the developer of a network, as long as the developer cannot control operational or management decision making. I believe this is best met through a bright line definition of decentralization provided by Congress that is based on (a) the ownership of token supply across affiliates/related parties and (b) the technical control over the network.

It is also worth noting that there were collateral consequences to the lack of certainty related to other market participants: Even after our Regulation A token offering, it wasn’t clear to third parties how they could permissibly engage with the Stacks token. For example, could it be listed on exchanges? Which party could list it on an exchange? Who could provide custody arrangements? These are all questions that we hoped would have finality post-offering following an extensive process; we would hope they would be answered by additional clarity on decentralization.

*C. Congress Should Adopt Rules To Clarify that Programmatic Sales Using Exchanges by an Issuer Are Not Securities Transactions*

I also believe our company and the broader crypto market has been ill-served by the absence of a clear pathway to conduct token sales on exchange prior to network decentralization or maturity. Clarifying that pre-programmed sales of digital assets on exchanges in blind bid/ask transactions by an issuer are not securities transactions subject to SEC registration or qualification should be a priority. In many instances where Hiro’s capital needs could have been met by periodic open market token sales, we were required to solicit venture capital investment or private placements to investment firms, which was both more costly and less supportive of development of the network. A legal framework including this standard would have eased this considerably.

We understand that there can be a concern about issuers and their affiliates flooding the market with an unrestricted asset, which could harm existing holders. To avoid a scenario where large tranches of tokens are sold on the market by a development team using programmatic sales, a blended approach could be taken whereby tokens could only be sold through programmatic sales (a) after 12–24 months, to allow the market to assess their performance and ability to meet disclosure requirements, and (b) subject to annual caps, which could be based on a number of factors such as circulating supply, team supply, or prior annual expenditures.<sup>3</sup>

<sup>3</sup>This approach would be consistent with the “dribble out” provisions under current Rule 144, which provides a safe harbor to secondary transactions for certain otherwise restricted securities.

*D. Congress Should Require the SEC To Adopt Appropriate and Tailored Requirements for the Disclosures Needed for Digital Asset Offerings, Which Should Evolve Over the Lifecycle of a Project and Not Include Audited Financial Statements*

Congress should mandate that the SEC adopt clear requirements for disclosures in digital asset offerings, and those disclosures should not include audited financials. We have spent approximately \$450,000 annually on external finance and legal costs related to audit obligations and semi-annual disclosures and an additional \$500,000 as it relates to internal finance and legal personnel necessary to maintain our compliance as a reporting entity, representing upwards of 7% of our total annual expenses.

Were the audited financials simply a function of cost that provided tremendous benefits to investors, our calculus on the expense might be different. However, we have not found them to be an efficient use of our capital due to the lack of usefulness to crypto users and investors. We believe unaudited financials with a signed attestation as to their accuracy, should be sufficient.

The disclosures made pursuant to Regulation A are intended to provide investors with information about the enterprise. While the business may change, the focus on the enterprise is static. On the other hand, the development of a blockchain network shapeshifts. It begins with the developer, which *could* be an enterprise, or could be a single or set of entrepreneurs with a vision. Following inception, the core functions, ideation, and development move from one entity to meet other builders, hobbyists, companies, and tinkerers; much of what the blockchain network becomes with each passing year through developments and upgrades no longer rests within the originating enterprise.

With that difference in lens in mind, the utility of disclosures related to a single entity—the Regulation A filer—within a network of interconnected *but distinct* persons and organizations diminishes. While the status of Hiro's internal corporate governance, financial and compliance structures continued to elevate through our expenditures related to disclosures and audited financials, it did not give users what they needed. Instead, users interacting with our products or the network consistently reached out for information or metrics relevant to their uses.

The feedback and commentary we receive from users is almost principally related to our developer tools and network metrics and functionalities. As a result, in lieu of audited financial statements, we believe investors would be better served by being provided the most pertinent details of a project to a crypto investor, like key persons to the project and their compensation arrangements, token holdings by the issuer and related parties, and disclosures of both anticipated and past token sales on a 15 or 30 day timeline, supplemented by blockchainspecific information such as a third-party security audit, key governance rights, information security practices, and procedures for multi-signature transactions, if applicable. At the beginning of a project, when a project's or the issuer's financials may be relevant to the project's long-term viability, financial statements may be relevant as well, but we do not believe subjecting them to audit is necessary in light of the cost, especially given that they will likely recede in relevance in many cases. Therefore, financials with an attestation from an accountant should be sufficient.

Given the differences in mechanisms across blockchain networks, it would be difficult to prescribe a universal set of elements that should be subject to review in third parties audits, and so we recommend a principles-based approach to the financial information that should be provided. **We do believe, though, that one unifying principle is that data within blockchain networks should be open and publicly verifiable by independent parties without need for supplementation by any development team.** This would capitalize on the unique transparency that blockchains provide in order to help address concerns about an issuer, project, or affiliates falsifying or misrepresenting any data or metrics in the same way a formal audit does for financial statements.

*E. Congress Should Protect the Right for Developers To Contribute Open-Source Software Without Attribution of Liability for Third Party Use*

Finally, Congress should mandate protections for developers to contribute to open-source software deployed in permissionless blockchain protocols. Collaboration and open experimentation have been at the heart of almost all scientific progress, especially technological ones like the internet. Builders fearing they will be subject to personal civil or criminal liability for the actions of others they have no control over, using code they contributed to a public good, will have a chilling effect on long term progress. In order to ensure the progress of this industry in the U.S., developers need assurances that the use of their software contributions by third parties will not result in legal liability.

#### IV. A Look Ahead

Our effort towards regulatory compliance has been no small endeavor for an early-stage, 40-person company. While we have been disappointed by the opportunity for the U.S. regulatory regime to lead in this arena that is lost to time, we are incredibly encouraged by the work of the SEC in 2025 as evidenced by, for example, the creation and engagement of the Crypto Task Force and Staff Statements by the Division of Corporation Finance. If the SEC is focused on marshalling its resources towards transparent communication and industry engagement, and Congress mandates and supports that effort, I think we will see a markedly stronger digital asset industry emerge as a result. Whether the SEC adopts a framework similar to the Token Safe Harbor 2.0 or defers creation of new registered offerings for digital assets to await Congressional market legislation amendments, we believe our experience should be instructive on the limitations of qualification and registration regimes in their current forms as a means for token offerings.

Hiro is built for developers by developers. We proudly believe in the power of free markets and blockchain technology to unleash the creativity of millions. As a civilization, we have hundreds of years of history to show how important predictability and certainty is to entrepreneurs, and just because a technology is new, does not mean these needs are any different. To fulfill the vision, builders need regulatory clarity and fit-for-purpose, cost-effective structures to provide meaningful disclosures to investors, so that builders can move quickly and with confidence in doing what they do best: building.

Thank you to both Subcommittees for your focus on charting a new path for digital assets in the U.S.

Mr. STEIL. Thank you very much, Mr. Miller.

Mr. Davis, you are recognized to offer your comments.

**STATEMENT OF DANIEL J. DAVIS, J.D., PARTNER AND CO-CHAIR,  
FINANCIAL MARKETS AND REGULATION, KATTEN MUCHIN  
ROSENMAN LLP, WASHINGTON, D.C.**

Mr. DAVIS of Washington. Good morning. Thank you, Chairmen Steil and Johnson, Ranking Members Lynch and Davis, and Members of the Subcommittees and Committees for this opportunity.

My name is Dan Davis. I am Partner at Katten Muchin Rosenman and the co-chair of the firm's financial markets and regulation practice. From 2017 to 2021, I had the honor as serving as the General Counsel of the Commodity Futures Trading Commission with, among others, then-Commissioner Behnam. It is good to share a table with you.

I speak today in my personal capacity.

I have two points regarding the CFTC to make in these remarks. First, the CFTC is already engaged in a significant portion of the digital asset markets, and second, that the CFTC is the natural Federal regulation to provide additional authority for the digital asset spot market.

First, the CFTC is already engaged in a significant portion of the digital asset market. Let's start with basics. A digital asset is a commodity. Every court to address that question has ruled that a digital asset is a commodity. If I sell that digital asset to somebody else, that is presumptively a commodities transaction. The CFTC has enforcement authority over that transaction. If there is fraud or manipulation, the CFTC can prosecute that transaction, but that is all it can do.

If I put a future on top of that digital asset, you get full CFTC regulatory jurisdiction. I have to register, I am examined, and I have to comply with CFTC core principles and regulations. If I put a swap on top of that digital asset, again, full CFTC jurisdiction. And if I put an option on top of that digital asset, full CFTC jurisdiction. Also, if I sell that digital asset to a retail person and I offer them financing or leverage, and I don't actually deliver the digital asset to them within 28 days, that is also full CFTC jurisdiction, and that is Section 2(c)(2)(D) of the CEA.

So the CFTC already has a lot of jurisdiction over a wide array of digital assets. How much, exactly? Well, right now there are about 20 or so CFTC-regulated products, based on digital assets that are either trading or have been self-certified to trade. Those 20 or so digital assets account for about 83 percent of the global market capitalization of all digital assets, 83 percent. Thus, the CFTC and its regulated entities are monitoring, surveilling, and engaging in at least 83 percent of the digital asset market, and they have been doing so for about a decade now.

I am encouraged by many parts of the bill, but one part that jumps out at me is Section 202, that recognizes that secondary market transactions should not be securities, but commodities transactions subject to CFTC regulation. I believe that is

the correct application and interpretation of the *Howey* Test. I would go one step further than Section 202, and I would say that digital assets issued by issuers in blind bid/ask transactions are also commodities transactions and not securities transactions.

That brings me to my second point. If there is to be a Federal regulator over the digital asset spot market, the CFTC is the natural choice. As I have just illustrated, the CFTC already interacts with a large portion of the digital asset environment. It has, at this point, extensive experience with the trading and operation of these products. In addition, the Commodity Exchange Act's principle-based and self-certification approach to regulation provides an environment in which these markets can develop with strong customer protections and market resiliency. The CFTC knows how to look over these markets, examine entities for compliance with core principles, and work with market participants to understand how these products and trading works and to innovate to make these markets the envy of the world.

We have a great opportunity to improve regulatory clarity and bring trading in these important markets to the United States. I again thank you for your time, and look forward to the discussion.

[The statement of Mr. Davis of Washington follows:]

PREPARED STATEMENT OF DANIEL J. DAVIS, J.D., PARTNER AND CO-CHAIR,  
FINANCIAL MARKETS AND REGULATION, KATTEN MUCHIN ROSENMAN LLP,  
WASHINGTON, D.C.

Chairmen Johnson & Steil, Ranking Members Davis & Lynch, and Members of the Subcommittees:

Thank you for the opportunity to appear before you today and share my views about digital asset regulation, including the Commodity Futures Trading Commission's (CFTC) role in digital asset regulation. I had the honor of serving as the CFTC's General Counsel from 2017–2021 and currently advise clients about CFTC and digital asset regulation in my role as a partner with Katten Muchin Rosenman LLP. However, my appearance before you is in my personal capacity; I am not representing or speaking on behalf of any other person, private sector agency or governmental agency.

I would like to address a few issues in my testimony today, including the current jurisdiction that the CFTC has over the digital asset market, including the spot market, the CFTC's substantial experience regarding digital assets, and the protections that the Commodity Exchange Act (CEA) and rules currently offer for investors, particularly to retail customers.

#### **CFTC Jurisdiction Regarding Digital Assets**

As these Subcommittees are well aware, the CFTC is the primary regulator of the futures, options on futures, and swaps markets. The CFTC also regulates leveraged retail commodity transactions. The CFTC's full "regulatory" authority includes the ability to require registration and examine registered entities that offer these products.

The CFTC also has enforcement jurisdiction (or anti-fraud and anti-manipulation jurisdiction) in the commodities markets at large. Thus, if the CFTC thinks that there is manipulation or fraud in a spot market for a commodity—such as gold or Bitcoin—it can institute an enforcement action to enjoin that activity and seek recompense of ill-gotten gains from that activity.

Why is it important for the CFTC to have anti-fraud and anti-manipulation authority over the spot markets? Quite simply, because the spot markets highly influence the derivatives markets. Spot markets and derivatives markets are highly correlated. For example, there is a 99.9 percent correlation between bitcoin's spot market price and the price on CFTC-regulated bitcoin futures products.<sup>1</sup> If somebody can manipulate the price of the spot market, they generally also can influence the price of derivatives products based upon the underlying asset.<sup>2</sup>

Former CFTC Commissioner Dawn Stump provided an excellent explanation about the rationale and nature of the CFTC's anti-fraud and anti-manipulation authority for the spot market:

<sup>1</sup>*Grayscale Investments, LLC v. SEC*, 82 F.4th 1239, 1245 (D.C. Cir. 2023). In *Grayscale*, the D.C. Circuit concluded that the SEC's denial of Grayscale's application for a bitcoin exchange-traded product was arbitrary and capricious because the SEC "failed to explain its different treatment of similar products." *Id.* at 1242.

<sup>2</sup>*See, e.g., In re Coinbase, Inc.*, CFTC No. 21–03 at 3–4 (Mar. 19, 2021).

The public should be aware that where cash commodity markets are concerned, this limited authority (anti-fraud/manipulation/false reporting, as opposed to day-to-day regulatory oversight) is bestowed upon the CFTC as a tool to assist in its primary function of regulating derivatives products, such as futures. Futures contracts serve a price discovery function. Well-functioning futures (and other derivatives products) rely upon a sound underlying cash market and may reference cash market indexes in their pricing. Therefore, cash market transactions can potentially be part of a scheme to manipulate prices of derivatives products that are regulated by the CFTC. Congress has recognized these relationships between prices of cash transactions and derivatives products, and thus the CEA provides the CFTC with limited enforcement authorities with respect to cash transactions.<sup>3</sup>

Thus, CFTC enforcement actions in the spot market are not primarily focused on policing the spot market for its own sake. The CFTC emphasizes, instead, its role in regulating the derivatives markets.

The CFTC nevertheless has actively used its enforcement authority in the digital assets space. It has brought at least 80 enforcement actions involving digital asset commodities. In the last fiscal year, almost 20 percent of the Commission's enforcement actions related to digital asset commodities.<sup>4</sup>

The CFTC has a long history of involvement with digital assets. As early as 2014, the first Bitcoin denominated cash-settled swaps, options and non-deliverable forwards began trading on CFTC-registered swap execution facilities.<sup>5</sup> The next year the CFTC found that Bitcoin and other virtual currencies were commodities.<sup>6</sup> The first cash-settled Bitcoin futures contracts began trading on CFTC-registered Cboe Futures and CME in 2017.<sup>7</sup> During the same year, the CFTC for the first time designated a swap execution facility and derivatives clearing organization to transact in physically deliverable Bitcoin swaps contracts. Also in 2017, the CFTC's LabCFTC released a primer on virtual currencies.<sup>8</sup> CFTC's LabCFTC, which when I was at the CFTC reported to me as General Counsel, has grown and is now the Office of Technology Innovation that reports directly to the Chairman.

Since 2017, the CFTC has released additional backgrounders on virtual currencies and related derivatives products.<sup>9</sup> And CFTC Staff in 2018 released an advisory regarding their priorities and expectations when reviewing new virtual derivatives products to be listed on CFTC regulated markets.<sup>10</sup> The CFTC and its staff have continued to monitor the development of the digital assets market and recently withdrew the 2018 advisory because of "additional [CFTC] staff experience in the intervening years, as well as increasing market growth and maturity" in the digital asset space.<sup>11</sup>

Today, there are many actively trading derivatives contracts on digital assets on CFTC-registered markets, with additional products that have been self-certified for

<sup>3</sup>Concurring Statement of Commissioner Dawn D. Stump Regarding Enforcement Action against Coinbase, Inc., (Mar. 19, 2021), <https://www.cftc.gov/PressRoom/SpeechesTestimony/stumpstatement031921>.

<sup>4</sup>CFTC Releases FY 2024 Enforcement Results, CFTC Release No. 9011-24 (Dec. 4, 2024) (available at <https://www.cftc.gov/PressRoom/PressReleases/9011-24>).

<sup>5</sup>Stan Higgins, *TeraExchange Receives US Approval to Launch First Bitcoin Derivative*, COINDESK (Sept. 12, 2014), <https://www.coindesk.com/tech/2014/09/12/teraexchange-receives-us-approval-to-launch-first-bitcoin-derivative/>; *In re TeraExchange LLC*, CFTC Docket No. 15-33 at 3 (Sept. 24, 2015) ("On September 11, 2014, Tera filed with [the CFTC Division of Market Oversight] a submission self-certifying the Bitcoin swap for trading on its [swap execution facility]. Tera began offering the Bitcoin swap for trading on September 12, 2014.")

<sup>6</sup>See *In re Coinflip, Inc.*, CFTC No. 15-29 (Sept. 17, 2015).

<sup>7</sup>CFTC, Release No. 7654-17 (Dec. 1, 2017), <https://www.cftc.gov/PressRoom/PressReleases/7654-17>.

<sup>8</sup>LabCFTC, *A Primer on Virtual Currencies* (Oct. 17, 2017), [https://www.cftc.gov/sites/default/files/ids/groups/public/documents/file/labefct\\_primercurrencies100417.pdf](https://www.cftc.gov/sites/default/files/ids/groups/public/documents/file/labefct_primercurrencies100417.pdf).

<sup>9</sup>See CFTC Backgrounder on Self-Certified Contracts for Bitcoin Products, [https://www.cftc.gov/sites/default/files/ids/groups/public/@newsroom/documents/file/bitcoin\\_fact\\_sheet120117.pdf](https://www.cftc.gov/sites/default/files/ids/groups/public/@newsroom/documents/file/bitcoin_fact_sheet120117.pdf); CFTC Backgrounder on Oversight of and Approach to Virtual Currency Futures Markets (Jan. 4, 2018), [https://www.cftc.gov/sites/default/files/ids/groups/public/%40customerprotection/documents/file/backgrounder\\_virtualcurrency01.pdf](https://www.cftc.gov/sites/default/files/ids/groups/public/%40customerprotection/documents/file/backgrounder_virtualcurrency01.pdf).

<sup>10</sup>See CFTC Staff Advisory No. 18-14 (May 21, 2018), <https://www.cftc.gov/node/214951>.

<sup>11</sup>See CFTC Staff Advisory No. 25-07 (Mar. 7, 2025), <https://www.cftc.gov/PressRoom/PressReleases/9059-25>. The new Advisory notes, for example, that "since 2018, average daily volumes in aggregate across all Bitcoin futures have increased over 300 percent, and aggregate open interest has increased by over 800 percent." *Id.* at n. 4.

trading.<sup>12</sup> These contracts are based on a number of digital assets, including the two most-traded digital assets, Bitcoin (BTC) (63.5% of global crypto market cap) and Ether (ETH) (7.3%).<sup>13</sup> Other derivatives products that are either trading or have been self-certified for trading on CFTC-regulated markets include: XRP (4.4%), Solana (SOL) (2.5%), USDC (2.1%), Dogecoin (DOGE) (0.9%), Cardano (ADA) (0.8%), Chainlink (LINK) (0.3%), Avalanche (AVAX) (0.3%), Stellar (XLM) (0.3%), Shiba Inu (SHIB) (0.3%), Hedera (HBAR) (0.3%), Bitcoin Cash (BCH) (0.2%), Polkadot (DOT) (0.2%), Litecoin (LTC) (0.2%), Pepe (PEPE) (0.1%), Cronos (CRO) (0.1%), Bonk (BONK) (0.1%), and others.<sup>14</sup> Collectively, these various digital assets account for over **83 percent** of global digital asset market capitalization.

This long-standing and active oversight of digital asset derivatives has given the CFTC unique insights, expertise, and understanding of the operation of spot digital asset markets. For example, products trading on CFTC markets must not be readily susceptible to manipulation. Thus, the CFTC and CFTC-registered entities must monitor the digital asset spot market—over 83 percent of that market—to comply with current CFTC requirements. As Dr. Chris Brummer has noted, this activity on CFTC-regulated markets has allowed “the CFTC [to] gain[ ] expertise in overseeing the institutionalization of significant infrastructures intersecting directly with the digital asset commodity spot market.”<sup>15</sup> The CFTC and CFTC-registered entities understand the digital asset spot market because they have been reviewing that market for a number of years.

Furthermore, the CFTC has clarified the scope of its authority to regulate retail commodity transactions that involve leverage, financing, or margin. A key statutory requirement for CFTC jurisdiction is whether “actual delivery” of retail commodity transactions have occurred within 28 days. The CFTC engaged in extensive rule-making with the digital asset community and provided thorough guidance about the meaning of “actual delivery” as that phrase applied to digital assets, with multiple examples of acceptable and non-acceptable practices.<sup>16</sup> With Commission-backed guidance on this issue in place after receiving and incorporating extensive public feedback, the Commission has used its enforcement authority to have market participants follow the guidance.<sup>17</sup>

Neither the CFTC nor any other Federal regulator has plenary regulatory authority over the trading of digital assets that qualify as commodities. Based on the CFTC derivatives products based on digital assets described above, I believe that at least 83 percent (and likely more) of the digital asset spot market transactions would fall within the CFTC’s current enforcement authority. It is, therefore, a relatively short step to provide the CFTC with the additional regulatory authority to require registration and oversee these digital asset spot markets. A regulatory regime based on “core principles”—key goals for CFTC registrants to achieve but with reasonable discretion to achieve those goals—would be a good fit for regulation of the digital asset spot market. This market is ever changing and regulatory regime that requires high standards while encouraging responsible innovation would pro-

<sup>12</sup> Products are “self-certified” by a CFTC-registered entity. An entity self-certifying a product must provide to the CFTC “[a] concise explanation and analysis of the product and its compliance with applicable provisions of the [Commodity Exchange] Act, including core principles, and the Commission’s regulations thereunder.” 17 CFR § 40.2(a)(3)(v). Furthermore, a registered entity must “provide [to CFTC staff] any additional evidence, information or data that demonstrates that the contract meets, initially or on a continuing basis, the requirements of the [Commodity Exchange] Act or the Commission’s regulations or policies thereunder.” *Id.* § 40.2(b). In certain circumstances, the Commission can stay the trading of the contract. *Id.* § 40.2(c).

<sup>13</sup> The percentage of market cap for these digital assets (noted in parentheses “(XX%)” for each digital asset) was taken from [coinmarketcap.com](https://coinmarketcap.com) on April 30, 2025.

<sup>14</sup> See, Designated Contract Market Products, [https://www.cftc.gov/IndustryOversight/IndustryFilings/TradingOrganizationProducts?Category=&Date\\_From=&Date\\_To=&Organization=&Show\\_All=0&Status=Certified&Subcategory=&Type=&page=0](https://www.cftc.gov/IndustryOversight/IndustryFilings/TradingOrganizationProducts?Category=&Date_From=&Date_To=&Organization=&Show_All=0&Status=Certified&Subcategory=&Type=&page=0) (visited Apr. 30, 2025).

<sup>15</sup> Testimony of Chris Brummer before the Subcommittee on Commodity Exchanges, Energy and Credit at 5 (June 23, 2022), [https://agriculture.house.gov/uploadedfiles/brummer\\_congressional\\_testimony\\_the\\_future\\_of\\_digital\\_asset\\_regulation.pdf](https://agriculture.house.gov/uploadedfiles/brummer_congressional_testimony_the_future_of_digital_asset_regulation.pdf). Indeed, last year the CFTC voluntarily opened up to public comment consideration of a registered entity’s proposed changes to the market structure for certain digital asset derivatives products. *CFTC Seeks Public Comment on FTX Request for Amended DCO Registration Order*, CFTC Release No. 8499–22 (Mar. 10, 2022), <https://www.cftc.gov/PressRoom/PressReleases/8499-22>. The CFTC received 1,500 comments in response. See [https://comments.cftc.gov/PublicComments/CommentList.aspx?id=7254&ctl00\\_cphContentMain\\_MainContent\\_gvCommentListChangePage=1\\_50](https://comments.cftc.gov/PublicComments/CommentList.aspx?id=7254&ctl00_cphContentMain_MainContent_gvCommentListChangePage=1_50). Although the request was ultimately withdrawn, the public comment process provided the CFTC with valuable insight into a host of questions regarding the market structure and operation of digital asset exchanges.

<sup>16</sup> CFTC Final Interpretive Guidance, *Retail Commodity Transactions Involving Certain Digital Assets*, 85 FED. REG. 37734 (June 24, 2020).

<sup>17</sup> See, e.g., *In re Payward Ventures, Inc.*, CFTC No. 21–20 (Sept. 28, 2021).

vide participants in this area to flourish and be competitive with international counterparts.

#### **Customer Protections Provided in the CFTC Regime**

Entities subject to current CFTC jurisdiction must provide extensive protections to customers purchasing CFTC-regulated products. And the CFTC and the National Futures Association (NFA)<sup>18</sup> have not hesitated to enforce these customer protections. In addition to the anti-fraud and anti-manipulation authority described above, there are significant rules regarding the segregation and protection of customer funds. CFTC-registered futures commission merchants (FCMs) must provide general written disclosures regarding the risks of futures trading and specific disclosure regarding their own circumstances.<sup>19</sup> FCMs and introducing brokers must have privacy policies and have procedures in place to protect customer information.<sup>20</sup>

The CFTC also has extensive rules to protect retail customers engaging in certain foreign exchange transactions.<sup>21</sup> Entities engaged in retail foreign transactions must register,<sup>22</sup> meet minimum financial requirements,<sup>23</sup> and comply with various record-keeping and reporting requirements.<sup>24</sup> These entities must also provide appropriate disclosures to retail customers about the risks of engaging in these types of transactions, noting, among other things, that the customer can “rapidly lose all of the funds [they] deposit for such trading and [they] may lose more than [they] deposit.”<sup>25</sup>

The NFA has additional rules that protect customers. For example, NFA members and associates must observe high standards of commercial honor and just and equitable principles of trade. This includes dealing fairly with customers and others at all times.<sup>26</sup> NFA members must also comply with express standards in all communications with the public generally and promotional literature specifically.<sup>27</sup>

The NFA additionally requires members to provide specific disclosures regarding their digital asset activities and comply with certain conduct standards regarding their activities involving the digital assets Bitcoin and Ether.<sup>28</sup> Should the CFTC gain regulatory jurisdiction over digital asset spot markets, then one would expect similar types of protections for retail customers to be provided.

#### **Conclusion**

There appears to be a significant gap at the Federal level in the regulation of spot digital assets.

The CFTC has extensive experience in the digital asset space through both its (1) overseeing of trading of digital asset-based derivatives on CFTC-regulated exchanges and (2) asserting its anti-fraud and anti-manipulation enforcement authorities over the spot markets. The CFTC and NFA also have significant experience in providing protections to customers participating in these markets. This experience would provide an excellent foundation should Congress decide to give the CFTC regulatory jurisdiction over the digital asset spot markets.

Thank you for the opportunity to appear before the Subcommittees. I look forward to answering any questions you may have.

Mr. STEIL. Thank you very much, Mr. Davis.

Mr. Greg Tusar, you are now recognized to share your comments.

#### **STATEMENT OF GREG TUSAR, VICE PRESIDENT, INSTITUTIONAL PRODUCT, COINBASE GLOBAL, INC., SAN FRANCISCO, CA**

Mr. TUSAR. Thank you. Good morning Chairmen Steil and Johnson, Ranking Member Davis, and Members of the Committee. Thank you for the opportunity to testify today. I appreciate the opportunity to discuss the future of financial markets and the critical need for regulatory clarity in the digital asset space.

My name is Greg Tusar, and I serve as Vice President of Institution Product at Coinbase. I spent over 30 years working at the intersection of technology and fi-

<sup>18</sup>The NFA has been designated by the CFTC as a registered futures association.

<sup>19</sup>17 CFR § 1.55; NFA Rule 2-30.

<sup>20</sup>See, 17 CFR Parts 160 and 162.

<sup>21</sup>See generally, 17 CFR Part 5.

<sup>22</sup>*Id.* § 5.3.

<sup>23</sup>*Id.* §§ 5.6-5.7.

<sup>24</sup>*Id.* §§ 5.10-5.11.

<sup>25</sup>*Id.* § 5.5(a)(2)(b).

<sup>26</sup>NFA Rule 2-4.

<sup>27</sup>NFA Rule 2-28.

<sup>28</sup>NFA Rule 2-51; see also NFA Interpretive Notice 9073.

nance, and one thing I have learned is that markets work best when rules are clear and technology is embraced, not ignored.

Today we are experiencing a major market shift, similar to the transition from floor trading to electronic trading, which I experienced firsthand at Goldman Sachs. This is a major technological shift that will enable new products and services across markets and asset classes. It will open up opportunities for both crypto and traditional players alike, and will create new economic opportunities for millions of Americans. But we need smart rules to help us usher in this transition in order to foster innovation, protect consumers, and ensure U.S. leadership.

This is a once-in-a-generation moment to go back to first principles and design markets for the 21st century. This discussion draft released yesterday is a strong step in that direction. Although we are still digesting the Digital Asset Market Structure Act, it seems to build on the bipartisan consensus in FIT21 that would modernize our outdated systems and expand access to financial opportunity.

Today I would like to highlight three recommendations for Congress to consider as you move forward on market structure legislation.

First, we need to close the gaps in the current system. Today there is no Federal regulator with spot market authority over digital commodities. Exchanges and intermediaries are regulated by a patchwork of state laws that impose varying levels of consumer protections and create confusion in the market. The CFTC is the right Federal regulator to oversee the spot market. It has long overseen crypto derivatives, and has decades of experience with complex markets. Through its thoughtful work, it has also helped enable exchange-traded products under the jurisdiction of the SEC. We should now empower it to do the same for crypto spot markets in order to ensure national standards, proactive oversight, and consistent protection for every consumer, no matter the ZIP Code they live in.

Second, we need to resolve the confusion over token classification. Today, developers are forced to guess whether a digital asset might be deemed a security, now or down the road, and often after lengthy litigation. This ambiguity has driven responsible projects overseas and allowed other countries to take the lead. Congress must draw clear lines and give both the SEC and CFTC distinct but complementary roles.

Third, as I mentioned earlier, Congress should embrace the first principle of creating efficient, fair, and customer-focused market solutions. This means harnessing the benefits of technology to mitigate risks and modifying rules to meet customer expectations. A good example of this regulatory evolution happened in the late 1990s, when the SEC finalized Regulation ATS. This rule recognized that electronic trading was evolving outside of traditional exchanges and should be brought inside the regulatory perimeter. The new rules enable exchanges and brokers to operate order-matching systems, also known as alternative trading systems, which reduce the risk of opaque and fragmented markets. This framework is still in place today, and is a good fit for crypto.

Coinbase supports the approach in the discussion draft that would allow for the ATS structure as well as create symmetry across the CFTC and SEC for regulating digital asset commodities and digital asset securities, respectively.

In closing, I want to thank both committees for your leadership on crypto legislation. We are excited to move to more fully digest the discussion draft released yesterday, and look forward to building on the bipartisan success of FIT21.

Thank you, and I look forward to your questions.

[The statement of Mr. Tusar follows:]

PREPARED STATEMENT OF GREG TUSAR, VICE PRESIDENT, INSTITUTIONAL PRODUCT,  
COINBASE GLOBAL, INC., SAN FRANCISCO, CA

Good morning Chairman Hill, Chairman Steil, Chairman Thompson, and Chairman Johnson, and Ranking Members Waters, Lynch, Craig, and Davis. Thank you for the opportunity to testify before you today. It is an honor to join you in discussing the future of financial markets, the critical need for regulatory clarity in the digital asset space, and the role of Congress in fostering innovation while protecting consumers. The decisions made here will define not only the trajectory of this industry but also the position of the United States as a global leader in financial innovation.

My name is Greg Tusar and I am the Vice President of Institutional Product at Coinbase. I lead teams focused on delivering products and services to the largest institutional participants in global markets, including asset managers, hedge funds, family offices, and corporate clients. Our offerings include Prime Brokerage, Custody, Financing, and access to Coinbase Exchange, the largest regulated spot crypto exchange in the United States. We also operate a Commodities Futures Trading

Commission (CFTC) regulated Designated Contract Market (DCM), an NFA registered Futures Commission Merchant (FCM), and have a Securities and Exchange Commission (SEC) Registered Investment Advisor (RIA). Coinbase has extensive experience in highly regulated markets, and has an industry leading track record of integrating the highest standards of reliability, security, and trust into the evolving digital asset ecosystem.

Today, I hope to share perspectives informed by more than thirty years of experience in financial market infrastructure, electronic trading, and the migration to digitally-native systems. My career began at TLW Securities—a firm that specialized in program trading—where I eventually served as CEO before the company was acquired by Spear, Leeds & Kellogg (SLK) and then by Goldman Sachs in 2000. There I served as a partner responsible for building the firm’s electronic trading business and guiding their market structure investments.

Based on these experiences, I know firsthand how thoughtful market structure design and regulation can drive efficiency, power innovation, protect consumers, and redefine the way financial markets operate. I also know that, at times, we need to take a fresh look at regulatory frameworks that may unnecessarily impede the integration of new technologies.

Transitioning from floor trading to electronic systems was not just a technical exercise—it was a seismic shift in how orders were matched, costs were reduced, and access was democratized. It introduced unprecedented speed, efficiency, and access, but also required a complete reimagining of market rules. How should orders be prioritized? How could participants ensure equal footing when order books were digitized? And most importantly, how could the industry ensure transparency and fairness in a system no longer reliant on physical presence? Financial market regulators worked with the industry to grapple with these novel questions, and did so in a way that encouraged continued integration of emerging technology.

That moment in history resonates deeply with me, particularly as we enter a similarly profound change to the financial system today. In the 1990s, markets became electronic, ignited by the rise of electronic communications networks. Now, they are becoming digitally-native with the rise of crypto. The integration of open blockchain systems into our financial system will deliver better outcomes for participants while safeguarding trust. And we can foster this innovation here, in the United States, instead of driving it elsewhere.

For this to happen, we need regulatory clarity: clear guidelines that allow market participants to build novel products and services without compromising the safety and soundness of our markets. We also need to understand that the role of regulation is to provide needed protections, and not to enshrine certain business models in perpetuity.

### **Coinbase Background**

Coinbase offers a suite of products that empower tens of millions of consumers, institutions, and developers worldwide to discover, transact, and engage with crypto assets and Web3 applications. Founded in 2012, Coinbase has embraced regulation from the very beginning. As I noted in my introduction, we are regulated by both the CFTC and SEC, along with over 50 additional regulators across the United States.

We are a registered money services business with FinCEN under the U.S. Treasury Department, and hold 46 state money transmission licenses, a Louisiana Virtual Currency Business Activity License, as well as both a BitLicense and limited purpose trust company charter from the New York Department of Financial Services (NYDFS). Additionally, our decision to go public in April 2021 marked a critical milestone—achieved after extensive review and engagement with the SEC. This experience reinforces our commitment to transparency, consistent regulations, and the essential role of robust capital formation markets in fostering innovative companies.

For more than a decade, Coinbase has been at the forefront of building and implementing strong consumer protection measures, prudent risk management, and best-in-class security practices.

Core to our consumer protection efforts is our rigorous listing process. Prior to listing any asset for trading or custody, our teams evaluate the assets against extensive legal, compliance, and information security standards. Additionally, we hold customer assets 1:1 at all times, safeguarding them with industry-leading security standards and never lending or rehypothecating assets without customer authorization. Our safeguards—administrative, technical, and physical—are designed to exceed legal requirements and industry standards. Customer assets are appropriately ledgered, segregated, and managed in separate accounts and remain distinct from Coinbase’s corporate assets.

We also maintain an unwavering dedication to anti-money laundering (AML) compliance, as well as effective partnerships with law enforcement—both of which are vital for ensuring safety and integrity in the rapidly growing crypto space. Our comprehensive Financial Crimes Compliance program adheres to the U.S. Bank Secrecy Act (BSA), AML laws, and sanctions requirements, aligning with the same standards expected of traditional financial institutions. This focus allows Coinbase to keep customers—and the U.S. financial system—safe from bad actors.

#### **It's Time to Update the System**

Today, I am here to discuss how the Financial Innovation and Technology for the 21st Century Act (FIT21), which passed with a resounding bipartisan House vote of 279–136 in 2024, can evolve to better meet the needs of consumers, investors, and innovators. The evolution of legislation is not new—good bills become better all the time. We applaud the work of the 118th Congress to develop and pass FIT21, which was a substantial contribution towards creating clear, thoughtful, and consistent rules. The overwhelming bipartisan support for FIT21 reflected the growing recognition that modern rules are essential for fostering innovation, protecting consumers, and maintaining America's leadership in global financial markets.

The legislation should build on the foundation established by FIT21, retaining many of its core principles while refining critical areas to address emerging challenges. This effort should clarify asset classifications—defining which digital asset transactions are securities and which are commodities—and empowering the CFTC to oversee spot markets for digital commodities. These steps are key to ensuring customer protections, promoting market transparency, and encouraging responsible innovation within U.S. borders.

#### **Gaps in Current Regulatory Frameworks**

Despite the rapid growth of digital asset ownership, use, and integration into financial systems worldwide, the regulatory frameworks governing their activity in the United States have lagged behind. This has been problematic—not only for developers and market participants, but also for consumers, who are left without the benefits of Federal regulatory protections. Closing these gaps in regulation has never been more urgent. Today, critical shortcomings hold this industry back, undermining its potential and exposing market participants to significant risks.

##### *Misaligned Regulators*

One of the fundamental challenges in digital asset regulation lies in the lack of clear regulatory boundaries between agencies like the SEC and CFTC. This lack of clarity has led to a tug-of-war over which asset transactions are securities and which are not securities. And the two agencies took different approaches to resolving the problem—leaving market participants and the American people in the middle. The SEC took the failed approach of regulation by enforcement, rather than providing market-wide guidance to help developers understand when certain characteristics might trigger the Federal securities laws. This resulted in opaque and lengthy litigation battles with individual companies that provided zero certainty for the markets or consumers. In contrast, the CFTC worked to understand digital assets and provide some pathways for digital asset services within the scope of their jurisdiction. But the CFTC's activity was ultimately limited given both the limits of their statutory scope and the conflict with the SEC over certain assets.

The two agencies have also taken different approaches to the treatment of innovation more generally. A good example is the approval of Bitcoin futures contracts *versus* the approval of Bitcoin exchange-traded products (ETPs). The CFTC approved the first Bitcoin futures contract launched by the Chicago Mercantile Exchange (CME) on December 18, 2017. This marked a significant milestone in the integration of cryptocurrency into mainstream financial markets, and also recognized that Bitcoin is a commodity, effectively digital gold. And yet the SEC did not approve a Bitcoin ETP until 2024, and only did so after a Federal appeals court ruled that the agency's refusal to provide a green light was arbitrary, capricious and inconsistent with law.

This bifurcated and conflicting—and sometimes unlawful—approach to regulating crypto has created significant obstacles for innovators seeking to build responsible projects in the United States. Between the lack of clarity and the high probability of legal action from the SEC over the last 4 years, many innovators have opted to domicile their operations in overseas jurisdictions with clear rules. An explicit demarcation of jurisdictional authority between the SEC and CFTC—and a mandate from Congress for the agencies to provide the public with clarity—would resolve many of these uncertainties, restoring trust and ensuring market integrity.

The root of the current regulatory confusion is token classification. Although I am not a lawyer and this is outside of my area of professional expertise, current frame-

works fail to offer objective criteria for determining how assets should be classified, forcing developers and market participants to operate in regulatory gray areas. The lack of clarity isn't just a legal challenge—it stifles innovation and investment by limiting product designs and features that might otherwise have been offered if their regulatory treatment was clear.

Although I will not focus on this specific topic in my testimony, the need for Congress to address the issue of token classification is absolutely critical to the healthy functioning of markets. The United States needs a consistent framework for token classification that reflects the unique qualities of digital assets whose value and functionality is derived from a blockchain network, and Congress has a critical role in bringing this about. The treatment of such assets must be based on the premise of technology neutrality. If the assets are not securities, then they should not be treated like securities. Today, the inability for developers to predict whether their project will be treated as a security prevents responsible innovation and risks their token being excluded from secondary market distributions critical for growth. For investors and institutions, misclassification or overly discretionary enforcement actions can result in substantial losses and damaged reputations.

#### *Spot Market Vulnerabilities*

Although derivatives markets for digital assets are subject to comprehensive oversight by the CFTC, spot markets—the platforms where assets are actively bought and sold by investors—largely lack Federal supervision. The CFTC's current authority is limited to fraud and manipulation in digital commodity spot markets, with no authority to proactively regulate the markets. As a result, market participants face a fragmented approach to spot market oversight, with regulation and enforcement scattered across state-level regulators in a patchwork system that fails to provide consistent rules or guardrails.

This oversight gap is particularly impactful for retail users, who should be able to trust that their preferred intermediaries for asset trading and custody meet rigorous safety and operational standards no matter where they live. Good actors will strive to implement comprehensive and consistent standards, while the lack of Federal oversight leaves consumers exposed to potential bad actors who exploit the fractured system. Empowering the CFTC to oversee these intermediaries would address these vulnerabilities. It would ensure consistent national rules, improve consumer safeguards, and allow for proactive monitoring to mitigate risks and deter manipulation and fraud.

As a long-time market practitioner, there is no doubt in my mind that the CFTC is well-prepared to take on this task. With decades of experience overseeing complex and volatile futures and derivatives markets, the agency has developed robust mechanisms for ensuring market safety even under extreme conditions. Since 2014, the CFTC has expanded this expertise to include derivatives referencing digital assets, which serve as the foundation for pricing the crypto ETPs market. The CFTC moving proactively on digital asset futures enabled the creation of ETPs by demonstrating that there was an orderly and functioning market, not one prone to manipulation, which could be used to help price the ETPs.

Finally, the CFTC's principles-based approach to regulation, combined with its history of aggressively enforcing against bad actors, demonstrates its capability to advance customer protections while allowing innovation to flourish. By focusing on regulatory outcomes rather than prescriptive rules, the CFTC's approach to markets creates a flexible framework that accommodates the rapid evolution of technology while maintaining market integrity.

#### **The Benefits of a Federal Framework**

Throughout my career, I've built successful trading systems that have navigated a complex system of requirements. From my experience, unnecessary complexity generates risk, and eliminating it benefits to both consumers and service providers. Establishing a uniform set of standards through a Federal regulatory framework would be beneficial for replacing a patchwork of state-level regulation characterized by duplicative and sometimes conflicting compliance burdens. In its place would be a uniform set of consumer protections with lower system complexity and regulatory compliance costs.

#### *Uniform Customer Protections Across All States*

The lack of a Federal regulatory framework can lead to uneven protections depending on the state in which they reside. In some cases, if standards are too low or absent, this could leave consumers without protections they need. For example, the New York Department of Financial Services requires Bitlicense holders like Coinbase to provide certain disclosures about digital assets that are not required in

other states. If an exchange or intermediary wanted to avoid these disclosures, it could simply decide to avoid operations in New York.

It is also possible that regulatory requirements are set in ways that unnecessarily prevent residents of a jurisdiction from accessing legitimate services. A good example of this is staking: an essential part of blockchain operations in which participants earn rewards by helping to secure blockchain networks or validate transactions. Consistent with Federal and state law—and recent actions and statements by the SEC—more than 40 states allow their residents to stake through a service provider. Yet a few states still prohibit this activity. By introducing a common set of rules and standards at the Federal level, Congress can ensure more uniform customer protections and fair access to important products and services for consumers. Unified rules also provide greater trust and confidence in the market, empowering more Americans to engage safely with digital finance and protecting retail investors who rely on Federal regulatory safeguards.

But uniform rules alone will not solve the problem. If Federal laws do not expressly preempt state law, there is bound to be continued uneven and unequal enforcement across the states. Such patchwork enforcement is often not the result of disparate legal standards, but rather the result of inconsistent application of standards that may otherwise be identical in law. Strong preemption is thus a critical element for any legislation. Otherwise, state and other authorities could and likely will continue to classify assets and activities in ways that Congress has explicitly rejected. Further, given the long tail of enforcement risk this industry has faced over the years, Congress should also apply preemption retroactively to ensure subsequent state regulators cannot undermine the purposes of the bill through litigation directed at past conduct.

#### *Reducing Duplicative Regulatory Oversight*

The current regulatory environment for digital assets burdens both intermediaries and other businesses offering crypto products with duplicative compliance requirements imposed by overlapping state and Federal regulations, and leaves consumers with little consistency in protections and often arbitrary barriers to accessing legitimate products and services. For example, exchanges operating across multiple states must navigate a maze of different rules, licensing requirements, and operational standards—while also ensuring adherence to Federal AML guidelines.

This collage of rules creates inefficiencies that increase costs for both businesses and their customers. Platforms expend significant resources on complying with multiple oversight mechanisms that often require the exchange to set up systems in each state that are different shades of gray, rather than directing those resources toward innovation, security improvements, or expanding access for underserved communities. National standards would consolidate these requirements under a single framework, creating streamlined pathways for compliance that free innovators to focus on building transformative solutions. Reducing regulatory overlap also supports better enforcement by ensuring agencies can focus on key priorities rather than spreading their efforts across fragmented compliance jurisdictions. Perhaps most importantly, consistency gives consumers some clarity on what protections they can expect and how to best set their expectations when engaging in the crypto markets.

#### *Keeping the U.S. Globally Competitive*

National standards don't just resolve inefficiencies—they help position the United States as a global leader in digital finance and blockchain innovation. While Singapore, Switzerland, and the European Union have adopted unified frameworks that attract talent and capital, the fragmented U.S. regulatory landscape coupled by an enforcement-first approach has pushed innovators overseas. Without a clear, consistent roadmap for compliance across all states, developers and businesses find themselves focusing on jurisdictions where regulations are predictable and accessible, leaving the United States at a competitive disadvantage.

Unified Federal standards create an environment where innovators can operate confidently, knowing their compliance obligations are clear and consistent throughout the country. These standards signal to investors, developers, and institutions that America is committed to fostering responsible innovation in the digital asset space, attracting the talent and capital needed to maintain global leadership. Congressional action on national standards would not only streamline oversight, but also allow the United States to set the tone for how blockchain-based systems evolve globally. This would embed American values like transparency, fairness, and consumer protection into the technology's development.

## Core Elements of Legislation

### *Consumer Protection in Digital Asset Markets*

Consumer protection is the foundation of any well-functioning financial system. In digital asset markets, ensuring retail investors are safeguarded requires a regulatory framework designed to meet the unique characteristics of this emerging industry. A robust regulatory framework isn't just about reducing these risks—it's about fostering trust. When consumers are confident that the platforms they use are safe, transparent, and accountable, markets thrive, innovation accelerates, and more participants engage.

At Coinbase, consumer protection is central to everything we do, and our global experience provides a roadmap for how strong frameworks can protect retail participants while enabling innovation. Based on this experience, we believe regulators should adopt a balanced and principles-based approach to ensure consumer safety without stifling progress.

### *Protecting Retail Customers and Fostering Trust*

Retail customers are engaging with digital asset markets at unprecedented levels. Whether buying Bitcoin, participating in decentralized finance, or transacting in stablecoins, consumers across the U.S. deserve clear, consistent protections that allow them to make informed decisions without fear of exploitation. Key components of a robust framework include:

1. **Transparency Requirements:** Consumers need access to timely, accurate, and relevant information about the platforms and products they engage with. Requiring platforms to disclose material information—including tokenomics, fees, market risks, and operational security—helps retail investors assess opportunities and risks.
2. **Strong Standards for Asset Listings:** A reliable consumer protection framework should require exchanges to rigorously evaluate tokens before listing them for trading. This ensures assets meet clear legal and compliance metrics, protecting consumers from engaging with fraudulent or economically unstable tokens.
3. **Custody Standards and Asset Segregation:** Federal requirements ensuring that customer assets are legally segregated from house funds are critical to safeguarding customer holdings. Centralized platforms should also be required to adopt rigorous security solutions to ensure digital assets remain secure. We believe the CFTC is equipped to regulate custody, just as they would all other elements of digital asset markets.
4. **Market Manipulation Oversight:** Platforms should implement proactive measures to prevent market manipulation and bad actor behavior, including automated monitoring tools and transparent reporting of suspicious activity to regulators. These safeguards prevent unfair trading practices and reinforce market integrity.

### *Customer-First Regulatory Structure*

A first principle for any market structure legislation should be to leverage rules that have worked in the past, but also recognize that technology and innovation can render some rules and requirements obsolete. As I noted earlier in my testimony, I have experienced first hand that regulations should evolve to meet both the demands of customers and the capabilities of platforms and technology. I helped stand up Goldman Sach's alternative trading system (ATS) more than twenty years ago, and from that experience, I believe the same regulatory structure can serve digital asset trading.

The SEC first introduced Regulation ATS in December 1998, with the rules becoming effective on April 21, 1999. This regulation allowed broker-dealers and national securities exchanges to operate and register an ATS, giving brokers order-matching capabilities.

ATS platforms played a critical role in the technological evolution of securities trading in traditional financial markets, and they can do the same for the trading of all digital assets, including securities, commodities, and payment stablecoins. These venues provide intermediaries like broker-dealers with the ability to offer an order-matching engine while operating under rigorous oversight frameworks. For digital assets, ATS inclusion within the broader regulatory framework would serve several key purposes:

1. **Meeting Customer Demand:** Customers engaged in digital asset markets expect the benefits provided by blockchain technology and integrated models, including efficiency, speed, and cost effectiveness. An ATS framework for dig-

ital assets ensures that customers continue to benefit from both existing streamlined business models and robust, well-understood rules.

2. **Facilitating SEC-Compatible Trading Venues:** The ATS model creates a bridge for regulatory compliance under SEC authority, allowing trading venues to operate in a highly-regulated environment while focusing on innovation. By applying ATS rules to digital assets, legislation could ensure that digital securities are traded responsibly under SEC jurisdiction, side-by-side with digital commodities.
3. **Creating a Path for Institutional Adoption:** ATS rules provide a familiar regulatory framework for institutions entering digital asset markets. Institutions increasingly seek compliance-forward trading platforms, and ATS regulations ensure that venues meet the rigorous operational and transparency standards that institutional investors demand. This clarity encourages more institutional capital to flow into digital assets, strengthening market integrity.
4. **Ensuring Broad, Equitable Market Access:** ATS platforms are designed to facilitate fair trading while ensuring equitable access for all participants. Using this model for digital assets under SEC regulation minimizes the risks of market manipulation, ensuring robust protections for retail and institutional investors alike.

#### *The Practical Alignment of ATS Rules and Digital Assets*

Coinbase strongly supports an ATS model for its compatibility with existing market structures and its ability to address current gaps in crypto trading regulation. Digital asset markets face significant challenges around fragmented oversight and inconsistent rules. Applying ATS frameworks to these markets would provide a proven regulatory model with modifications tailored to the unique properties of blockchain ecosystems.

In practice, ATS rules can apply directly to digital asset markets in the following ways:

1. **Disclosure Requirements:** ATS platforms are required to provide detailed disclosures regarding execution practices, systems architecture, and operational conflicts of interest. Extending this transparency to digital assets would ensure that participants trust trading venues and understand the risks associated with executed trades.
2. **Broker-Dealer Collaboration:** ATS platforms are registered broker-dealers to ensure compliance and investor protections. This model encourages collaboration between innovation-focused trading venues and compliance-forward intermediaries, creating a partnership structure rooted in accountability.
3. **Adaptations for Blockchain Systems:** While ATS rules apply to traditional trade execution, the adaptability of this framework allows regulators to craft provisions specifically for blockchain-based tokenized environments and digital securities, reflecting the decentralized, programmable nature of these assets. In fact, despite many features of the ATS model that are a natural fit for digital asset markets, there are important elements of securities regulation that will need to evolve to reflect the specifics of crypto asset markets and distributed ledger technology. An ATS model would permit this necessary evolution.

One of the greatest risks to digital asset adoption is instability caused by inconsistent oversight in trading venues. By integrating ATS rules into the framework, legislation could provide a clear, reliable pathway for regulated trading venues, creating unprecedented stability for market participants. Under ATS compliance rules, platforms offering digital securities could meet investor demands for transparency, operational security, and predictable reporting.

#### *Parallel ATS Structure Needed Under the CFTC*

As noted above, Coinbase strongly supports an ATS model that allows brokerage, dealer, exchange and custodial activities to be undertaken within the same legal entity. We would also urge Congress to create a similarly efficient and customer-first model under the jurisdiction of the CFTC. This would reduce the risk of regulatory arbitrage and ensure that customers benefit from this innovative approach to regulation.

Throughout my career, I've learned that efficiency and trust are paramount in financial markets. For digital asset platforms to operate at scale and deliver the protections and transparency consumers deserve, simplicity in operational structures is essential. Forcing digital asset businesses to split core functions—such as trading,

custody, and brokerage—into separate entities does not benefit the market. It instead creates unnecessary operational complexity, drives up costs for consumers, and diminishes market efficiency. Platforms like Coinbase have already demonstrated how an integrated technology stack can deliver seamless experiences to its customers in a safe and secure manner.

In traditional financial markets, regulatory frameworks that require the separation of critical functions do so to mitigate conflicts of interest and promote market fairness. However, the unique characteristics of blockchain technology challenge the assumptions that have underpinned these rules for decades. Custody no longer needs to take place at a centralized clearing agency because transactions are recorded and settled on public blockchains. By eliminating a previously needed piece of infrastructure, integrated technology stacks can take advantage of atomistic settlement in ways that de-risk the financial system by removing settlement risk. This makes it less costly to operate by eliminating capital requirements to protect against settlement failures.

Done responsibly with the right guardrails in place, integrated structures do not undermine consumer protection or market integrity. Instead, they foster greater transparency, enhance capital efficiency, create resiliency, and result in better outcomes for all participants in the ecosystem—from retail customers to institutional players.

Digital asset platforms like Coinbase have already demonstrated how this can work in practice—it is how we are setup today. By incorporating trading, custody, and settlement into a single legal entity, we reduce the number of intermediaries to which customers need to pay fees. This approach creates efficiency and eliminates many of the friction points that hinder innovation in traditional financial systems. As noted above in relation to an ATS model, several key benefits emerge from a unified structure in digital asset markets:

1. **Enhanced User Experience:** Integrated platforms provide a seamless experience for users. For example, a customer who purchases digital assets on an exchange can have those assets securely stored in custody systems within the same platform, eliminating the need for manual transfers to external holding entities. This not only improves convenience but also reduces operational risks, as consumers avoid potential errors or delays caused by fragmented workflows.
2. **Faster and More Cost-Effective Transactions:** With trading, custody, and settlement services housed under one roof, platforms can settle trades in real-time and at a lower cost. This efficiency is particularly important in fast-moving markets where delays between trade execution and settlement can expose both retail and institutional investors to unnecessary risks.
3. **Improved Transparency and Accountability:** Blockchain technology itself provides unparalleled transparency, allowing for real-time auditing of transactions and fund flows. When integrated platforms leverage this inherent transparency, they not only simplify regulatory compliance but provide regulators and consumers clear oversight into how their processes operate.
4. **Innovation Enablement:** By reducing intermediaries, a unified structure allows exchanges to create and deploy innovative products more quickly. Whether it's digital securities, payment stablecoins, or new custody solutions, integrating these functions allows platforms to operate at the speed of technological development, rather than at the pace dictated by segmented regulatory structures.

Countries like Singapore and Switzerland allow integrated operations, demonstrating the broad acceptance and competitive advantages of this approach. For example, Swiss providers like SEBA Bank operate as unified entities offering trading, custody, and lending services within a single framework. Similarly, the Monetary Authority of Singapore's (MAS) regulatory framework supports integrated digital payment tokens services, allowing platforms to combine brokerage and custodial functions efficiently. This unified model is one familiar to the most sophisticated market participants, and encourages them to bring their experience and expertise to the digital asset markets. Further, unified models enable seamless compliance processes, and foster innovation due to reduced operational fragmentation.

#### *Guardrails to Address Potential Risks*

The benefits of a single entity can be fully realized with appropriate safeguards to mitigate concerns about conflicts of interest. Historical rules separating functions in traditional markets were designed to address specific risks, such as exchanges prioritizing their own trades over client orders or commingling funds inappropriately.

ately. The advent of the ATS model shows that regulators have long concluded that these risks can be mitigated in traditional markets. In the context of digital assets, these risks can be managed even more effectively leveraging long-standing regulatory best practices, as well as blockchain technology. The following guardrails are examples of how regulators can balance the advantages of a unified structure with robust oversight:

1. **Customer Fund Segregation:** Platforms must be required to legally separate customer assets from operational reserves, ensuring that consumer funds remain secure and untouchable in the event of organizational distress or bankruptcy.
2. **Operational Firewalls:** To prevent conflicts of interest, vertically-integrated platforms should implement internal policies to prevent conflicts of interest between the broker, exchange, and custody functions. This could include designating separate personnel to work on specific functions.
3. **Third-Party Oversight:** The CFTC or the registered futures association should regularly check compliance for all platforms, helping to verify adherence to guardrails and ensuring that consumer protections remain strong.

Permitting platforms to operate as unified entities does not mean removing oversight—it means creating smarter oversight tailored to the strengths of blockchain technology. Unified operational frameworks combined with proportionate and targeted guardrails creates win-win scenarios for customers and the market.

#### *Unified Custody Framework under the CFTC*

Custody of digital assets is one of the most critical aspects of a functioning and secure ecosystem. Whether for retail customers or institutional participants, safe and compliant custody solutions are essential to ensure trust and protect assets from theft, fraud, or improper access. Custody regulation in the United States will also equip American firms and institutions to compete globally based on the firm foundation of regulatory oversight in the United States. As discussed above in relation to integrated models, we urge Congress to ensure that exchanges, brokers, and dealers can custody assets or leverage a CFTC-regulated custodian. For digital commodities, we believe the CFTC is best positioned to act as the Federal regulator. A custody framework under the CFTC would enable a unified tech stack, unlocking major operational efficiencies.

#### *Why Custody Regulation is Critical for Digital Assets*

Digital asset markets operate very differently from traditional financial systems in terms of custody. Assets are stored in cryptographic wallets, with security relying on advanced techniques including cold storage, access controls, and distributed systems that leverage blockchain technology. Unlike traditional systems, digital asset custody involves greater technical expertise and programmability, which offers both risks and opportunities. Regulators must adopt an approach that reflects these unique dynamics while prioritizing safety, access, and cost efficiency.

A robust Federal framework for custody ensures that:

1. **Consumer Assets Are Protected:** Custody regulation guarantees that consumer funds remain insulated from operational risks at exchanges or platforms, providing a critical safeguard against bankruptcy scenarios and fraud.
2. **Transparency is Embedded:** Standardized custody requirements build trust by mandating auditability and visibility into custody practices, allowing regulators and participants to verify safekeeping measures and safeguards.
3. **Innovation Can Continue:** Regulatory clarity creates an environment where innovators can pursue novel custody models like decentralized custody solutions and programmable security protocols without unnecessary legal ambiguity.

#### *There Should Be An Option for Custody Regulation at the CFTC*

As was provided for in FIT21, platforms should have the ability to utilize state pathways for custody regulation, including state trust and bank charters and credit unions. However, it would be a missed opportunity if new legislation does not also enable the CFTC to serve as a custody regulator. Allowing the market regulator to serve as the custody regulator, as many digital asset proposals have done over the years, would simplify the overall regulatory approach. Digital commodity custodians and trading platforms could develop more unified technology stacks that achieve greater operational efficiencies. In just the same way, one regulator can see the whole picture, and in the process, better protect consumers.

Digital assets require regulatory flexibility to keep up with the rapid evolution of technology. The CFTC distinguishes itself with its principles-based regulatory approach, which focuses on market outcomes rather than rigid, prescriptive practices. The CFTC's approach would be well-suited to building on long-standing principles, such as the segregation of funds, operational security, and regular audits, while also enabling innovation to improve market functions.

#### **Applying AML Standards to Centralized Crypto Actors**

It is imperative that any future legislation aligns AML obligations for centralized crypto entities with those currently applied to traditional financial institutions. This includes on- and off-ramps connecting the tokenized digital ecosystem to the traditional banking system—key gateways in maintaining financial integrity.

##### *Blockchain's Transparency and Traceability in Combating Illicit Finance*

Contrary to misconceptions about digital assets being a haven for illicit activity, blockchain technology offers unparalleled transparency and traceability. Every transaction is permanently recorded on a public ledger, enabling compliance professionals and law enforcement to monitor, trace, and prevent illicit activity more effectively than traditional systems. This inherent transparency empowers platforms like Coinbase to implement robust AML, terrorist financing, and sanctions compliance programs that exceed regulatory standards.

Through advanced blockchain analytics, Coinbase monitors suspicious activity in real-time, flags violations, and ensures any attempts at illicit exploitation leave a digital trail that law enforcement can investigate. Innovations such as smart contracts enable automated compliance measures, like restricting funds from sanctioned wallets or flagging large transactions for review.

##### *Coinbase's Commitment to AML and Sanctions Compliance*

Coinbase has built a comprehensive global compliance framework that adheres to regulatory requirements such as the BSA and the Patriot Act, ensuring the integrity of the digital asset system. Key elements of this framework include:

- **Rigorous KYC Protocols:** Verifying user identity and assessing risk to prevent illicit actors from accessing the platform.
- **Advanced Transaction Monitoring:** Using software to identify suspicious patterns and anomalies linked to money laundering or terrorist financing.
- **Automated Sanctions Screening:** Enforcing sanctions compliance by screening wallets and users against global watchlists such as OFAC.
- **Collaborations with Law Enforcement:** Sharing intelligence, aiding investigations, and recovering assets from bad actors in partnership with agencies such as the FBI and Homeland Security Investigations (HSI).

##### *Enhancing National Security Through Collaboration and Blockchain Tools*

Digital asset platforms like Coinbase actively support national security initiatives by monitoring and addressing threats such as terrorist financing, sanctions evasion, and criminal activity. For example:

- **Combating Terrorist Financing:** Blockchain transparency aids in uncovering networks attempting to move funds to terrorist organizations.
- **Sanctions Compliance:** Platforms rigorously screen transactions against international sanctions, providing regulators with tools to enforce compliance even across decentralized systems.
- **AML Investigations:** Partnerships with law enforcement have led to dismantling criminal networks involved in activities like human trafficking and ransomware.

##### *Congress's Role in Strengthening Compliance Frameworks*

Congress has an important role to play in ensuring that AML, sanctions compliance, and counter-terrorist financing measures are both effective and aligned with the capabilities of digital asset technology. Building on existing regulatory frameworks, Congress should consider advancing legislation that:

1. **Encourages Platforms to Register in the United States:** Providing a path for onshoring this industry is the single biggest thing Congress can do to help national security. By providing a framework for platforms to register in the United States, AML compliance standards are appropriately applied across intermediaries. This reduces gaps that bad actors can exploit.
2. **Leverages Blockchain Transparency:** Regulatory approaches should embrace the unique transparency of blockchain systems to identify novel meth-

ods for combatting illicit finance, such as real-time transaction monitoring and cross-border coordination tools.

3. **Enhances Collaboration with Agencies:** Formalizing partnerships between digital asset platforms and law enforcement will ensure that private sector expertise helps strengthen investigations across borders.

### **Decentralized Finance (DeFi) at an Inflection Point**

DeFi, one of the most transformative blockchain innovations, offers programmable, permissionless, and globally accessible financial tools through decentralized smart contracts. It has the potential to democratize access to financial services, reduce costs, and address inefficiencies in traditional systems—especially for underserved or unbanked populations. However, DeFi is still in its early stages. Premature regulation could stifle this innovation, driving it offshore or limiting its ability to serve global markets effectively. Just as electronic trading systems needed time to mature before regulation, DeFi requires flexibility to evolve responsibly.

#### *Unique Benefits and Risks of DeFi*

Unlike centralized platforms, DeFi operates on transparent, public, and permissionless protocols without centralized operators. Innovations such as composability—the ability to seamlessly connect financial services—have the potential to redefine finance by offering greater efficiency, transparency, and fairness. The ecosystem is also organically addressing risks, such as smart contract vulnerabilities (*i.e.*, coding errors or bugs) and governance attacks (*i.e.*, malicious manipulation of the protocol), through rapid iteration, governance, and the development of insurance mechanisms. Haphazard and unfocused regulation now could discourage innovation and drive developers to jurisdictions with lower standards, hampering progress and financial inclusion efforts.

#### *A Balanced Approach to DeFi Regulation*

Recognizing DeFi's transformative potential means providing it the regulatory room to grow, while still addressing risks over time. Just as the approach to electronic trading adjusted as systems matured, DeFi deserves the same opportunity to prove its advancements in transparency, efficiency, and financial inclusion. Congress should avoid regulating DeFi prematurely under new legislation before the sector develops and any perceived risks are better understood. Instead, policymakers should continue to embrace the principles adopted in FIT21:

- **Tech Neutral:** Ensure legislation allows blockchains, developers, and technology providers to innovate and deliver software and hardware that enables new products and services.
- **Collaborate:** Develop public-private working groups to better understand DeFi.
- **Risk-Based:** Encourage innovation by allowing DeFi protocols to mature naturally while assessing risks and benefits.

### **Now is the Time to Act**

Regulating digital assets responsibly is not just about protecting markets today—it's about shaping the future. Congress maintaining the goal of positioning the United States as the global leader in innovation sends a powerful message to developers, consumers, and investors: America is committed to building frameworks that protect its citizens while allowing transformative change to thrive. We cannot afford to sit back while other nations leapfrog us in deploying a foundational technology like blockchain. What's at stake is our ability to shape the rules of the future and ground them in American values.

I urge Congress to act with urgency and conviction to provide clarity, enforce protections, and give innovators across the United States the certainty they need to build responsibly. With swift action, you have the power to set the course for this industry and reaffirm America's leadership in shaping the future of technology and finance.

Thank you to both Chairs and Ranking Members for this opportunity to testify. I look forward to answering your questions.

Mr. STEIL. Thank you very much.

The Honorable Rostin Behnam is recognized for 5 minutes to share your remarks.

**STATEMENT OF HON. ROSTIN BEHNAM, J.D., DISTINGUISHED FELLOW,  
PSAROS CENTER FOR FINANCIAL MARKETS AND POLICY,  
MCDONOUGH SCHOOL OF BUSINESS, GEORGETOWN UNIVERSITY,  
WASHINGTON, D.C.**

Mr. BEHNAM, Chairman Hill, Chairman Thompson, Ranking Member Craig, Chairman Steil, Ranking Member Lynch, Chairman Johnson, and Ranking Member Davis, I am honored and grateful to testify before you today.

Between 2017 and 2025, I had the privilege of serving first as a Commissioner then as the Chairman of the CFTC. During that more than 7 year period I observed the significant growth of the digital asset market and wider adoption of digital assets by both institutional and retail investors in the United States. I also observed the digital asset market endure multiple periods of dramatic volatility, often significant in size and scale.

Throughout this time I publicly repeated one consistent message to Congress—under current U.S. law, there is a gap in regulation for the non-security digital asset market.

The regulatory gap remains today, and has facilitated countless scandals and fraudulent activity. First and foremost, filling the regulatory gap will provide the needed customer protections that American investors have been accustomed to in traditional markets. One common refrain in connection with past legislative efforts to fill the non-security gap suggests that a U.S. regulatory framework will legitimize the digital asset market, leaving opportunities for bad actors and industry players to capitalize on regulatory loopholes and unwitting retail investors.

Though well intentioned, I believe this argument is the loophole. It has only left, for far too long, the vast majority of the digital asset market unregulated and American investors vulnerable to fraud and manipulation.

I have consistently called for new legislative authority for the CFTC in order to provide core customer protections in the non-security digital asset market. As both committees consider a legislative solution, I believe it is critical to rely on durable legal precedent as the framework to define digital tokens as securities or commodities, and recognize that the nature of commodity assets do not necessitate an identical regulatory framework as do securities.

Given the critical role the SEC plays in the oversight of security-based digital assets, the committees should consider legislating a disciplined, flexible, and balanced framework for the determination of tokens as either commodities or securities. Where intermediaries handle both security and non-security tokens in the cash market, separate jurisdiction is critical to a healthy, comprehensively regulated ecosystem. Currently there are numerous examples of individuals and entities dually registered with the CFTC and the SEC. In these instances, each agency retains its licensing authority over the registrant.

Any regulatory system that contemplates a different model, where one agency defers to the other or is simply notified of activity within its jurisdiction, will be nothing more than a paper clip and a Band-Aid on the existing gap in regulation, leaving bad actors and arbitrageurs opportunities to exploit weaknesses and leave American investors at risk. Further, any framework where each agency does not retain its exclusive licensing authority portends a future of blurred jurisdiction across other financial products, like agricultural and energy, to name a few.

While preserving each agency's authority is critical, supporting cross-agency collaboration, consistent with what is practiced today, and which may include tools like portfolio margining and other netting mechanisms is also beneficial, where appropriate.

As both committees continue to consider legislation to fill the gap, I would like to focus attention on the components of a regulatory framework that would ensure the CFTC has the tools to provide customer and market protections.

First, the principles-based oversight model has served the CFTC and its regulated markets well, striking an appropriate balance between clear outcomes-based requirements and measured flexibility to meet those outcomes.

Second, appropriate funding is necessary to meet the mandate of any legislatively enacted regulatory program. I would strongly encourage the Committee and the Congress to consider a permanent fee-for-service model, exclusively assessed on digital asset registrants.

Third, and following my earlier point, any legislative package should require registrants to provide information regarding traded tokens to ensure investors have access to material information.

Fourth, an effective legislative effort mandating a regulatory framework for digital assets must include a role for self-regulatory organizations.

Fifth, it is essential that legislation provide comprehensive authority for anti-money laundering, know-your-customer, and customer identification program, built off of existing requirements under U.S. law for market participants.

And finally, a comprehensive education and outreach program will enable the investing public to understand both the risks and opportunities of this technology.

The current divide between the U.S. and our international counterparts creates regulatory arbitrage opportunities that are exploited by bad actors and prohibits the U.S. from truly contributing to much-needed multilateral coordination efforts. Further, the potential economic benefits and innovation arising from this technology ultimately will be unmet without regulatory certainty.

The principles and regulatory foundations that have made U.S. capital markets and derivatives markets the deepest, most liquid, and most resilient in the world provide an effective model for the digital asset commodity market. We need to act thoughtfully but with urgency to fill this harmful regulatory gap in order to give American investors the protection they deserve.

I thank both committees for your focus in this area, and look forward to answering your questions.

[The statement of Mr. Behnam follows:]

PREPARED STATEMENT OF HON. ROSTIN BEHNAME, J.D., DISTINGUISHED FELLOW, PSAROS CENTER FOR FINANCIAL MARKETS AND POLICY, McDONOUGH SCHOOL OF BUSINESS, GEORGETOWN UNIVERSITY, WASHINGTON, D.C.

Chairman Hill and Ranking Member Waters, Chairman Thompson and Ranking Member Craig, Chairman Steil and Ranking Member Lynch, Chairman Johnson and Ranking Member Davis, Members of the Committees, I am honored and grateful to testify before you today on this important and timely topic.

### **The Gap In Regulation**

Between 2017 and 2025, I had the privilege of serving first as a Commissioner, then as the Chairman of the U.S. Commodity Futures Trading Commission (“CFTC”).<sup>1</sup> During that more than 7 year period, I observed the significant growth of the digital asset market and wider adoption of digital assets by both institutional and retail investors in the United States. Over this time, digital assets evolved from a little known financial product to one that has become ubiquitous globally, owned by nearly one in five Americans according to a 2024 Pew study,<sup>2</sup> and easily accessible to the public.<sup>3</sup>

While I served at the CFTC, the digital asset market endured multiple periods of dramatic volatility, often significant in size and scale. Throughout this time, I publicly repeated one consistent message to Congress: under current U.S. law, there is a gap in regulation for the nonsecurity digital asset market. In 2022, a Financial Stability Oversight Council report highlighted this gap in regulation of the spot market for digital assets that are not securities.<sup>4</sup> This gap for non-security tokens continues to constitute a majority of the digital asset market measured by market capitalization.<sup>5</sup>

The regulatory gap remains today, and must be filled with targeted legislation; it has facilitated countless scandals and fraudulent activity, some very small and typical in criminal form, others massive in profile. First and foremost, filling the regulatory gap will provide the needed customer protections that American investors have become accustomed to in traditional markets regulated by the CFTC and the U.S. Securities and Exchange Commission (“SEC”).

Further, based on my current observations and those while at the CFTC, I do not believe policy inaction will deflate public interest for digital assets; inaction will only result in greater risk to our financial markets and investors. As the digital asset market continues to integrate into traditional financial institutions, concerns regarding broader market resiliency and perhaps even financial stability will grow. In short, our current trajectory is not sustainable.

One common refrain in connection with past legislative efforts to fill the non-security gap suggests that a U.S. regulatory framework will *legitimize* the digital asset

<sup>1</sup> Chairman of the U.S. Commodity Futures Trading Commission (2021–2025); Commissioner of the U.S. Commodity Futures Trading Commission (2017–2021).

<sup>2</sup> <https://www.pewresearch.org/short-reads/2024/10/24/majority-of-americans-arent-confident-in-the-safety-and-reliability-of-cryptocurrency/>.

<sup>3</sup> <https://www.sec.gov/files/rules/sro/nysearca/2024/34-99306.pdf>.

<sup>4</sup> Financial Stability Oversight Council, *Report on Digital Assets and Financial Stability Risks and Regulation* (Oct. 2022), *Report on Digital Asset Financial Stability Risks and Regulation 2022* (treasury.gov).

<sup>5</sup> <https://coinmarketcap.com/>.

market, leaving opportunities for bad actors and industry players to capitalize on regulatory loopholes and unwitting retail investors. Though well intentioned, I believe this argument is the loophole; it has only left, for far too long, the vast majority of the digital asset market unregulated and American investors vulnerable to fraud and manipulation. Between pursuing comprehensive regulation that does not undermine existing law, or inaction, there is only one choice: comprehensive regulation, full stop.

### **A Legislative Solution to Empower Regulators**

I have consistently and publicly called for new legislative authority for the CFTC in order to provide core customer protections in the non-security digital asset market.<sup>6</sup> Today's joint hearing demonstrates the healthy engagement and collaboration that these two committees, and also the two respective agencies overseen by these committees have enjoyed over many decades. Similar to debates around security and commodity futures during the advent of financial derivatives fifty years ago, or security based and commodity based swaps throughout the deliberation of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, I believe the digital asset market is another milestone in the evolutionary arc of financial markets that pose unique, but solvable policy questions.

As both committees consider a legislative solution, I believe it is critical to rely on durable legal precedent as the framework to define digital tokens as securities or commodities, and recognize that the nature of commodity assets do not necessitate an identical regulatory framework fit for securities. Most notably, a key pillar of the securities law is bridging information gaps between an issuer of securities and prospective investors through mandated disclosures. While information about a public company's audited financial statements, executive leadership team, and business risk factors, to name a few, are identifiable and quantifiable for security issuers, and critically important to investors, the same is not the case for commodity assets.

Any credible digital asset regulatory framework of commodity digital assets must include disclosures, but more limited in scope by virtue of the characteristics of the underlying asset. Put more simply, and using Bitcoin as an example, there simply is no regularly reportable information on this commodity token that fits neatly into the securities regime. In addition to disclosures for digital asset investors about risk of loss and the static characteristics of a token, the primary focus of a comprehensive market regulatory framework for commodity tokens like Bitcoin should rest on the principles of fair, orderly and efficient markets. The argument that the CFTC is not a disclosure based agency is only true insofar as commodities cannot fulfill the securities regime.

### **Dual Registration**

Given the critical role the SEC plays in the oversight of security-based digital tokens, the Committees should consider legislating a disciplined, flexible, and balanced framework for the determination of tokens as commodities or securities. As mentioned, the SEC and CFTC have a longstanding partnership that facilitates strong, robust regulation of securities and commodity derivatives markets.

Where intermediaries handle both security and non-security tokens in the cash market, separate jurisdiction is critical to a healthy, comprehensively regulated ecosystem. Currently, there are numerous examples of individuals and entities dually registered with the CFTC and SEC, most typically as a broker-dealer and futures commission merchant, or investment advisor and commodity pool operator. In these instances, each agency retains its licensing authority over the registrant. Any regulatory system that contemplates a different model, where one agency defers to the other, or is simply notified of activity within its jurisdiction, will be nothing more than a paper clip and band-aid on the existing gap in regulation, leaving bad actors and arbitrageurs opportunities to exploit weakness and leave American investors at risk. Further, any framework where each agency does not retain its exclusive licensing authority portends a future of blurred jurisdiction across other financial products, like agricultural and energy, to name a few.

While preserving each agency's authority is critical, supporting cross-agency collaboration, consistent with what is practiced today, and which may include tools like

<sup>6</sup>See, Rostin Behnam, Chairman, CFTC, Testimony Before U.S. House Committee on Agriculture, <https://www.cftc.gov/PressRoom/SpeechesTestimony/opabehnam42> (Mar. 6. 2024); see also, Rostin Behnam, Chairman, CFTC, Testimony on The Future of Digital Assets: Providing Clarity for Digital Asset Spot Markets Before the U.S. House Committee on Agriculture, <https://www.cftc.gov/PressRoom/SpeechesTestimony/opabehnam42> (Mar. 6. 2023).

portfolio margining and other netting mechanisms is also beneficial where appropriate.

### **Targeted with Flexibility**

As both Committees continue to consider legislation to fill the regulatory gap, I would like to focus attention on the components of a regulatory framework that would ensure the CFTC has the tools to provide customer and market protections. The CFTC has been involved in the digital asset market for over a decade, sharpening its expertise and skillset in a balanced, deliberative fashion. The CFTC has also been at the forefront of many of the most complex and historic enforcement cases, working closely with other state and Federal civil and criminal authorities.

First, the principles-based oversight model has served the CFTC and its regulated markets well, striking an appropriate balance between clear outcomes-based requirements, and measured flexibility to meet those outcomes. Core principles such as compliance with fair and orderly trading, system safeguards, financial resource requirements, and products not being readily susceptible to fraud or manipulation, serve as a solid foundation to build transparent and resilient markets, regardless of asset class. In light of the novel nature of digital assets, the CFTC would then, consistent with a legislative mandate, tailor rules to meet the risk and characteristic profile. The CFTC would also have flexibility to adapt with a changing market landscape, should the digital market evolve in a manner not first contemplated.

Second, appropriate funding is necessary to meet the mandate of any legislatively enacted regulatory program. The CFTC is currently funded for its mandate; it is funded to regulate digital commodity cash markets. I would strongly encourage the Committees and the Congress, as it would in any instance where it increases an agency's mandate, to consider a permanent fee-for-service model, exclusively assessed on digital asset registrants, that is commensurate with the responsibilities outlined in any legislative effort. As with other fee-for-service models, Congressional appropriators and the agency should work together to set budget levels and subsequently set fees to meet those budget levels.

Third, and following my earlier point about the need for a sensible disclosure regime, any legislative package should require registrants to provide information regarding a commodity token's structure, purpose, market-based characteristics, and general risks to ensure investors have access to material information.

Fourth, a reliable self-regulatory organization ("SRO") has been critical to the success of the CFTC and SEC for decades. Both the National Futures Association, in the case of the CFTC, and FINRA, in the case of the SEC, have served as effective boots on the ground for both agencies, complementing and supporting the missions of each. Any effective legislative effort mandating a regulatory framework for digital assets must include a role for SROs.

Fifth, it is essential that legislation provide comprehensive authority for anti-money laundering ("AML"), know-your-customer ("KYC"), and a customer identification program ("CIP"), built off of existing requirements under U.S. law for market participants. With the right tools, including AML, KYC, and CIP authority, the digital asset ecosystem will not only become exponentially safer but also less vulnerable to terrorist organizations and illicit activity.

Finally, given the broad adoption of digital assets by a significant portion of the American population,<sup>7</sup> a comprehensive education and outreach program, built off of both the SEC and CFTC's customer education programs, will enable the investing public to understand both the risks and opportunities of this technology.

### **International Competition**

While CFTC Chairman, I had the privilege of serving as the Vice-Chairman of the International Organization of Securities Commissions ("IOSCO"). IOSCO's member agencies regulate more than 95% of the world's securities markets in over 130 jurisdictions.<sup>8</sup> As Vice-Chair, I saw major and developing economies establish regulatory frameworks for the new asset class.

The current divide between the U.S. and our international counterparts creates regulatory arbitrage opportunities that are exploited by bad actors, and prohibits the U.S. from truly contributing to much needed multilateral coordination efforts. Further, the potential economic benefits and innovation arising from this technology ultimately will be unmet without regulatory certainty. Investors, entrepreneurs, and

<sup>7</sup> *Id.*, at 2.

<sup>8</sup> International Organization of Securities Commissions, About IOSCO, [https://www.iosco.org/v2/about/?subsection=about\\_iosco](https://www.iosco.org/v2/about/?subsection=about_iosco) (last visited July 8, 2024).

various other stakeholders simply cannot participate fully with confidence without regulatory protections and certainty.

### Conclusion

The principles and regulatory foundations that have made U.S. capital markets and derivatives markets the deepest, most liquid, and most resilient in the world provide an effective model for the digital asset commodity market. We need to act thoughtfully, but with urgency, to fill this harmful regulatory gap in order to give American investors the protection they deserve.

I thank both Committees for your focus in this area, and look forward to answering your questions.

Mr. STEIL. Thank you very much. We thank all of our participants for being here and sharing your expertise.

We will now move on to questions in the roundtable. As this is a roundtable and not a hearing, I will control the time. I ask all of our Members to hold their questions to roughly 5 minutes, and I will do my best to alternate between not only parties but also full committees.

We will begin by the chair of the Subcommittee on Agriculture, Mr. Dusty Johnson.

Mr. JOHNSON. I will start by thanking former Chair Behnam. It was a remarkable investment of your time last Congress. You and I talked on Saturdays. You and I talked on Sundays. You understood it was not your job to craft legislation, but instead to provide the Members of this Committee insight needed to try to do right by this complicated policy issue. And, sir, you have been a clear and consistent voice that legislative inaction endangers consumers, and you said it again in your testimony today. It is a clarion call that does right by this process, and I just want to thank you for that.

Mr. Davis, I thought your testimony was spot on. You talked about the CFTC being the natural choice to be the digital asset spot market regulator. You talked a little bit about why, but tell us more.

Mr. DAVIS of Washington. First of all, the CFTC has the experience. I was in the room when Chairman Giancarlo, in 2017, was discussing Bitcoin futures and the wrestles that the agency was having with it back then. This agency has been wrestling with those issues ever since, and actually before that time.

And there is a lot of learning that has been gained there. When you have a Bitcoin futures market, if a company self-certifies that, they have to say that that product is not readily susceptible to manipulation. The only way you can know that is if you are monitoring and surveilling the underlying Bitcoin spot market.

So a natural part of the CFTC monitoring and examination regime has been the spot market. Obviously, it started with Bitcoin, which accounts for, on any given day, about 60 to 65 percent of the market. It grew to Ether, which is another eight to ten percent of the market. And as I noted in my remarks, there are now 20 digital assets that are either self-certified or trading.

So you have an agency that has the experience of understanding, looking under the hood, looking how the spot market operates, where it works well, where it doesn't, has examined parties, CFTC registrants, and as Chairman Behnam can attest, has brought a number of enforcement actions for fraud and manipulation that require an understanding again of how the spot markets work.

And I guess I would just add, principles work. Core principles allow entities to use innovation, productive, effective thinking, to find effective ways to resolve the problems that we all know we exist in any market—worries about fraud, worries about manipulation, worries about cybersecurity, worries about reporting. The core principle construct that the Commodity Exchange Act embraces really would allow this market to thrive.

Mr. JOHNSON. Mr. Tusar, in your testimony you noted, similarly, that the CFTC has decades of expertise in complex markets. What else would you add to Mr. Davis's comments?

Mr. TUSAR. I wholeheartedly agree that the principles-based regime is the right regime for the digital asset ecosystem and market to really develop. This is a critical moment in the evolution of this space, and it needs a market structure that allows for innovation, but that also has the strong consumer protections that the CFTC and Commodity Exchange Act provide. And so those two principles are critically important.

As I noted in my remarks also, Regulation ATS offered the same thing in the securities world. That similar parallel infrastructure in the CFTC regime will be critically important to allow exchanges to evolve, and also recognizing the unique characteristics of digital assets. They settle instantaneously. They don't have the same

sort of credit risks and characteristics that normal securities or commodities have. So putting both of those things together will be critically important.

Mr. JOHNSON. For each of the panelists, you said it in your testimony, each of you in a different way. But I want to make sure I understand. Basically a yes-or-no question. Does the absence of a clear regulatory regime do a disservice to consumers, investors, and innovation in the digital asset space?

Mr. Rathmell?

Mr. RATHMELL. Yes.

Mr. JOHNSON. Mr. Miller?

Mr. MILLER. Absolutely.

Mr. JOHNSON. Mr. Davis?

Mr. DAVIS of Washington. Yes.

Mr. JOHNSON. Mr. Tusar?

Mr. TUSAR. Yes.

Mr. JOHNSON. Chair Behnam?

Mr. BEHNAM. Yes.

Mr. JOHNSON. Thank you. With that, Mr. Chairman, I yield back.

Mr. STEIL. The gentleman yields back. The Ranking Member of the Subcommittee on Agriculture, Mr. Davis, is recognized.

Mr. DAVIS of North Carolina. Thank you so much, Mr. Chair. I want to direct a question towards Chairman Behnam. It has been made evident by you that Congress is required to take action in order to address the regulatory deficiencies pertaining to digital asset markets. As the former chair of the CFTC, you directly observed the ramifications of inaction as well as the promise of legislation solutions that my colleagues and I are endeavoring to promote. I listened to your testimony earlier, and it seems like you have laid out what seems to be a very reasonable framework.

My first question is, what would you prioritize within that structure that you outline, and then the second part of the question would be, what is the importance of all of this moving together, the interchangeability of this framework, for instance, of Congress failed to provide adequate funding or if we didn't educate? I would really love to hear more in terms of this framework that you laid out.

Mr. BEHNAM. Thanks, Congressman. Above all else, and Mr. Davis alluded to this, the CFTC has been very active on the enforcement side of the ledger over the past 11 years. The first case that CFTC brought was in 2014, in the spot market with very limited authority.

So as the Committee and these committees think about what authority is needed, it is much like the traditional authorities that both the CFTC and the SEC have in traditional markets. And I alluded to this, within the core principles it is around registration of intermediaries, whether it is exchanges, brokers, custodians, introducing brokers, or anyone sort of in the trade cycle that is involved with giving access to financial assets to customers. That has to be the centerpiece, and I believe, at least in the draft that I saw briefly yesterday, that is the centerpiece of what you are proposing, and that has to be the starting point.

Everything else I listed, which is critical, the CFTC is not going to be able to do the work if they don't have the appropriate funding. And I wrote this in my submitted testimony at more length, with any Congressional mandate there is going to have to be more funding, and I think that is a critical piece because without that this job just won't get done appropriately. And we need this to get done appropriately.

Above all else, customer education. Far too often I personally experienced, or the agency has experienced very vulnerable individuals, sometimes from low-income communities, who just don't have financial literacy to understand the risks associated with digital assets.

So it is a multi-piece puzzle that has to be built one piece at a time. But I would encourage and certainly support the Committee's effort to do this comprehensively and as quickly as possible, but in one shot. And doing anything piecemeal and holding out for another sort of effort down the road, I understand things are difficult, but ultimately, if we are going to do this right, it has to be done comprehensively, and that is the registration, that is the surveillance, that is examination, that is making sure cyber and operational risk, that is communication, funding, education. It is a lot, but it is very, very much comparable to what we do in traditional derivatives markets or traditional securities markets.

Mr. DAVIS of North Carolina. Thank you so much, Mr. Chair.

My next question, and this would be for everyone, but I would definitely start with Mr. Tusar, the discussion draft of the market structure bill was released yesterday. Any early thoughts? I would just love to hear any early thoughts.

Mr. TUSAR. I appreciate the question. Thank you, Congressman. Early thoughts, as I said in my opening remarks, it is a strong step in the direction of making a few things very clear. First of all, and maybe most importantly, token classification, which today is very unclear with respect to the difference between commodities and securities and which fall under which regulatory regime. So it is excellent to see forward progress in that direction.

Also, importantly, that there is the potential for there to be harmonization between the digital asset securities and digital asset commodities trading. Because what we anticipate is that these things will need to exist not just side by side but in the future in some integrated way. So it is important that the two regimes, on the CFTC and SEC side, are harmonized to the greatest degree possible, so that consumers are afforded the same protections and those sorts of things as we anticipate that they will exist on the same platform, and the expectations will be similar.

And thirdly, that there is a potential path to have an integrated, Federal-level regime for custody potentially, as well, which we think is important. The potential for leaving custody unaddressed on the commodities side leaves open for the potential to be Federal-level regulation for trading and listing of assets, but state-level regulation for custody, which we think leaves the potential for gaps there, as well.

But we feel, in conclusion, it is a strong step forward.

Mr. DAVIS of North Carolina. Thank you. I yield back.

Mr. STEIL. Thank you very much. I know some people chose to leave, but I think if you look around this room, a lot of Members of both parties and both the Agriculture Committee and the Financial Services Committee is here, because this topic is so important. And I think the danger we have in this country is if we put our head in the sand and fail to regulate in this space, we actually have more risk than we do today.

Some of my other colleagues will say, "No, we live in a *laissez-faire*. Why regulate at all?" And I think what is lost in that is that there is currently a large number of regulations that don't fit well in the digital age, in the token age, and in digital tokens.

So what I want to do with you, Mr. Miller, if I can, is let's go back and learn a lesson about Hiro. You went through the Reg A process. You commented on this. Is the current exemption framework for raising capital compatible with the digital asset ecosystem?

Mr. MILLER. In short, it is definitely not compatible. If you look at all of the current securities law exemptions and registration schemes and qualification schemes, they are based on the fundamental idea of either a debt or equity offering in a company. And again, as somebody who has spent a long time in the startup world and worked with investors, Reg D works great for raising from a credited investor and angel investor.

Mr. STEIL. So to dive into it, so the people that are investing, are they getting the clarity that they should?

Mr. MILLER. No.

That is the fundamental thing, is the registration scheme is all about aspect of the company. So Hiro remained, long after decentralization, remained a reporting issuer with the SEC. You can go see these reports about the dev tools business, fixing nothing.

Mr. STEIL. So it doesn't get the information that an investor needs.

Mr. MILLER. No.

Mr. STEIL. And then the question then becomes, of course, what was the cost associated with it? What did you raise and what did you spend?

Mr. MILLER. Right. So our Reg A raised about \$15 million. It cost probably \$3 million to run the Reg A.

Mr. STEIL. And this is my frustration, because what we want to do is make sure that the next innovators are in dorm rooms and basements, not in boardrooms and law firms.

Mr. MILLER. Exactly.

Mr. STEIL. And it sounds like as you went through this process you probably spent a lot of time in boardrooms and law firms.

Mr. MILLER. Absolutely.

Mr. STEIL. And if you didn't have that kind of capital you probably couldn't do this in your parents' basement.

Mr. MILLER. Nope.

Mr. STEIL. Because you would have to spend millions of dollars, in very tall buildings, attorneys, navigating through with the regulatory agencies. Correct?

Mr. MILLER. And that is why we see small teams who are trying to be upstarts moving offshore today.

Mr. STEIL. And so you would agree that we have to create a new system for digital assets to be able to efficiently go through the process, and provide the clarity to prevent abuse.

Mr. MILLER. Absolutely.

Mr. STEIL. All right. Let me jump over. Another impediment of the digital asset ecosystem is the legal classification of the assets. Are they securities, commodities, or maybe something else entirely? Mr. Rathmell, your guidance has been a useful project in determining whether or not there will be classified as a security or not. The SEC put forward a rule, 2019, a 60 factor test. Is this helpful at all, or does it just add more complexity into the system?

Mr. RATHMELL. We are grateful for the clarity, certainly. The challenge that we have consistently run into in this space, as Mr. Miller alluded to, is that we have startup teams who may have raised perhaps a few million dollars, who are spending a disproportionate amount on reading the legal tea leaves, and I think the 2019 guidance is kind of part and parcel of that. A 60 factor test is not really workable for an entrepreneur.

Mr. STEIL. It is not workable. Do you create your own internal process?

Mr. RATHMELL. For us, particularly, at a venture capital firm?

Mr. STEIL. Say it again?

Mr. RATHMELL. For us, specifically, a venture capital firm?

Mr. STEIL. Yes.

Mr. RATHMELL. Certainly we have looked at the 2019 guidance. We have looked at the Hinman speech as we are assessing the security status of an offering. But certainly there is a comprehensive kind of across this space a lack of legal clarity.

Mr. STEIL. So even with the guidance that came from the SEC, you are finding yourself spending big bucks on attorneys rather than on innovation development. Fair?

Mr. RATHMELL. Absolutely, and the same is true for all of our founders.

Mr. STEIL. So let me jump over to you if I can, Mr. Tusar, as we wrap this up. Because the other logical path, of course, people would say, "Well, don't worry, Mr. Steil. We can go for a state approach." And I think your background at Coinbase really gives us an opportunity to dog into that. Can you kind of highlight the impact the existing regulatory structure for digital asset trading platforms and how it exists, in particular at the state level? Maybe that is a path.

Mr. TUSAR. Yes. Thank you for the question, Congressman. We think it is critical that there be Federal-level regulations, that today we have a variety of different approaches. We have money transmission licenses from state to state, which leaves customers with different levels of protection, different levels of our ability to have products state by state when it comes to things like staking, and different levels of disclosure that are required.

So we have advocated for some time that there absolutely needs to be Federal-level regulation, and so we are excited for this bill to move forward, to close the gap as it exists today.

Mr. STEIL. Thank you very much. I think what we have heard is the current state regulatory framework doesn't work. The current SEC regulatory framework doesn't work. And the work of Chairman Thompson and Chairman Hill to bring forward this market structure legislation is absolutely essential to provide clarity, to make sure that there is innovation and development occurring in the United States without the need for high-priced attorneys, and making sure that the United States wins Web3, and we are in a position now to compete with China.

I will yield back. I will now recognize the Ranking Member on the Financial Services Subcommittee, Mr. Lynch, to offer comments, or ask questions.

Mr. LYNCH. Thank you, Mr. Chairman. Much appreciated.

I think the greatest asset, that the greatest characteristics of our financial system writ large is trust. I think that is really what sets us apart from other countries. That is why we do so well with foreign investors. People trust the system, that the laws will apply, and they have a menu of rights that they can exercise.

In the last few weeks, under the Trump-appointed leadership of the SEC, the SEC dropped almost every single lawsuit against some of the worst offenders in the crypto industry, companies such as Crypto.com, Ripple, Kraken, Gemini, Binance, Coinbase, Robinhood, and Uniswap. Those all have a proven history of irresponsible, predatory, or illegal practices.

Then the Trump-appointed Prudential Banking Regulators were directed to rescind the thoughtful guidance that advised financial and depository institutions to exercise caution in engaging with crypto. This is a just a concern, because you have people's deposits, and there is supposed to be a stability there, and then you have crypto that is extremely volatile. It was a commonsense guidance.

And then, a few weeks ago, the Justice Department announced it is disbanding the National Cryptocurrency Enforcement Team, which had been charged with combatting fraud and illicit financing crypto.

Brick by brick, President Trump is showing us how democracies die. We are seeing long-standing investor and consumer protections dismantled, all to further President Trump's personal interests. And I believe all of these moves serve to have a corrosive effect on that trust that I talked about in the beginning.

And in an even more appalling move, President Trump advertised a private dinner, this is outrageous. It would be funny if it wasn't true—advertised a private dinner at his golf club for the top 220 investors in his meme coin—in his meme coin—that has zero value in reality, followed by a private White House tour for the top 50. That just screams government for sale right there.

And then, last week, as I mentioned before, at a conference in Dubai it was announced that a fund backed by Abu Dhabi would be making a \$2 billion business deal using President Trump's firm's digital coins. A foreign government will be making a direct, major contribution to President Trump's wealth, which stands to make the Trump family hundreds of millions of dollars.

Mr. Davis, Mr. Behnam, I am aware of your history. Mr. Davis, you are a former general counsel. Don't you think that that undermines—look, if you are really hoping for the greatest future for crypto, that scamifies everything. It looks seedy, shady. Is there a way to promote crypto without—first of all, do you think that is helpful to crypto, all of those measures?

Mr. DAVIS of Washington. Sir, I have no comment on what the President or what his family is doing.

Mr. LYNCH. I don't blame you. If I was an attorney I wouldn't answer the question either.

Mr. Behnam, CFTC, you have been in this seat before. You are familiar with the ethics laws, and so are you, Mr. Davis. Do you think those breach the ethics laws, either one of you? Mr. Davis or Director Behnam?

Mr. BEHNAM. Congressman, I said this last week or a few weeks ago in response to a question about a similar issue or the same issue. There are well built-out and decades-old ethics rules around all government officials, whether it is elected officials, appointees, or everyone across the U.S. Government, and it is extremely important that those rules are upheld, for the same reasons you stated at the beginning of your comment. And I say this often, as well. The health and the size and the demand for U.S. capital market instruments, whether it is equities or derivatives, is because of the rule of law, because of the confidence in the integrity that foreign investors, but also U.S. investors, have in the accountability of our regulators, whether bank regulators or market regulators. And I do think for that continued success and growth and economic—

Mr. LYNCH. Okay. Just reclaiming the last 15 seconds of my time. All I am saying is, some of those moves might have pumped up the short-term price of crypto. I think in the long term is very, very bad for crypto. You want to have credibility. You want to have trust. And I don't think you are getting that with all those moves that I just remarked upon.

Thank you, Mr. Chairman. I appreciate your courtesy, and I yield back.

Mr. STEIL. The gentleman yields back. The Chairman of the Agriculture Committee, Mr. Thompson, is recognized.

Mr. THOMPSON. Chairman, thank you so much. Chairman Behnam, welcome back. It is nice to see you here.

In 2023 and 2024, there was some uncertainty about the legal status of Ether as then-SEC Chair Gensler asserted Ether may, in fact, be a security, despite the CFTC publicly stating it was a commodity several years prior. You and other suggested that a sudden reversal in the settled treatment of a digital asset could be disruptive for anyone participating in the derivatives market.

Please describe the uncertainty and confusion caused by the SEC claiming one thing and the CFTC claiming the opposite.

Mr. BEHNAM. Thanks, Mr. Chairman. As we had contracts listed, and now there are many more than when I was chair, when contracts are listed on CFTC exchanges as derivatives, there is essentially an assumption that the underlying asset is a commodity. So when we had listed Bitcoin futures in 2017, and then listed Ether futures a few years later, there was an assumption, legally, that the underlying asset in that case, Bitcoin and Ether, were commodities.

So any confusion in the public markets about what those assets were, along this security-commodity line would certainly create confusion, regulatory uncertainty, and potentially legal liability for any market participant who wanted to participate in some sort of innovative project or entrepreneurial project that involved those assets, as it relates to the two market regulators.

Mr. THOMPSON. Very good. Thank you. Mr. Miller, Mr. Rathmell, and Mr. Tusar, what effect does this confusion have on digital asset ecosystem and innovation?

Mr. MILLER. So as I said, beyond the fact that we spent untold sums of time and money trying to guess at what the laws were, and even worse, what the laws would be in a few years, since when you have an agency interpretation it might change every 4 years, even today we just see, unless you are an absolutely huge, very well-funded team, you can't afford to take the risk of operating here. So these upstart teams, ones who are going to be the massive companies of the future, are choosing to go to other jurisdictions, whether it is in the Middle East or in areas of Southeast Asia, or things, where they aren't having to pay \$1,000+ an hour for a lawyer to tell them, "Well, I don't know what the law might be."

Mr. RATHMELL. I would say something similar. Markets demand clarity, ultimately, and during this kind of very tumultuous period that we saw over the past half decade-plus, I was routinely approach by founders who were just trying to build their businesses, including some projects that were building on Ethereum. And these are founders that shouldn't have to understand the nuances of securities and commodities laws, who are just trying to build projects here in America, and who shouldn't have to spend millions of dollars on legal advice from lawyers who don't have a legislative or regulatory framework that they can actually reasonably interpret. And spending time with those founders and seeing them try to become arm-chair lawyers felt like a great wasted opportunity, because they were spending time doing that rather than building their businesses here in America.

Mr. THOMPSON. Very good. Mr. Tusar, any thoughts.

Mr. TUSAR. Yes, Mr. Chairman. I would suggest that one of the greatest impacts is to the competitiveness of the U.S. as the hub for what we think is innovation for the future of the internet, the future of payments on the internet, and having that talent and that capital move to jurisdictions. The U.S. is the only in the G20 that does not have clear rules of the road, as is proposed in this bill. And I think are we not to act with urgency, I think we will continue to see that flight of capital and talent overseas.

Mr. THOMPSON. Very good. Mr. Davis, Section 3 of the Commodity Exchange Act closes with its final purpose, to promote responsible innovation and fair competition. How does regulating digital assets fulfill CFTC's purpose of promoting responsible innovation and fair competition in the markets?

Mr. DAVIS of Washington. Because well-functioning markets allows innovation to thrive. When the entrepreneurs know what the rules—and I am talking myself out of business. I am saying not use the lawyers as much. When you don't have to use the lawyers as much, when you are spending more of your time innovative and less of your time trying to figure out what in the world am I allowed to do in this ecosystem, the innovation succeeds. And we have seen that since the passage of the Commodity Futures Modernization Act a quarter of a century ago. The differentiation and types of products that have been allowed to trade in CFTC markets have grown tremendously. A number of those products have failed, but the ones that succeeded have succeeded tremendously. And that is because the self-certification system and the core principles system creates an environment in which innovation can get to the top.

Mr. THOMPSON. Very good. Thank you, Chairman.

Mr. STEIL. The gentleman yields back. The gentleman from Virginia, Mr. Vindman, is recognized.

Mr. VINDMAN. Thank you, Chairman. Good morning, everyone. Like many of my colleagues on this Subcommittee, I am genuinely excited about the innovation and dynamism in your industry. Just last month, we heard from witnesses leveraging this technology in remarkable ways, from modernizing cattle trading to advancing geospatial mapping. And one area I am particularly interested in is the national security application that are meaningful and significant.

But while the potential is substantial, the public also sees some elected officials misuse these tools to scam Americans and risk themselves and their political allies. That kind of behavior undermines public trust and taints an otherwise promising innovation. Even more troubling, it opens the door to foreign adversaries to influence senior U.S. officials by purchasing large volumes of coins they promote or create.

As a former White House ethics lawyer that advised senior White House officials, I find these actions deeply troubling, as do the American people. The American people recognize the President's scheme to profit off his own support for what it is, and frankly, there is a concern about emoluments.

So as each of you, and as my colleague, Mr. Lynch mentioned, the foundation for your industry is trust. How are you currently building trust in digital assets? I will start with Mr. Miller.

Mr. MILLER. I think one of the great innovations that Bitcoin did bring to folks is, we can talk about it being money, we can talk about it being ledger, whatever. It is fundamentally that it allowed decentralized trust across the world, right. No matter where you are, with very little computing power, you can agree on what the history of something was. You can agree that, hey, going forward this is what we believe. And I think being able to have that on a borderless basis, and create trade and interaction and communication across the world like that, is an incredibly powerful trust-building primitive, that we haven't seen before, in a way. And I think using that to allow for transparency and interaction is one of the most powerful things we can do for a global economy, going forward.

Mr. VINDMAN. So on that point, I think it is important to distinguish between transparency, which I think is very much there, and then trust, which is more foundational, and goes to the question of whether there are conflicts of interest, or where is investment going.

Chair Behnam, do you have any comments on how do we build trust in digital assets, and specifically, how do we ensure that there are no conflicts of interest, to the earlier question about financial conflicts of interest from members of the government.

Mr. BEHNAM. Thanks, Congressman. Ultimately, the trust is going to be built with a regulatory system in place, and that trust, as I mentioned earlier to Mr. Lynch, around our traditional markets, exists because of a comprehensive regulatory system, which many registrants will complain about, because in part it is burdensome, it is a challenge. But it ultimately creates a level playing field and one where market participants can trust that there is a system of transparency, where there are no conflicts of interest, which is a core principle in and of itself.

So I do believe the step that the Committee is taking towards a regulatory system will be a step towards building trust. And over time, as markets become transparent, as they become what U.S. investors are accustomed to, and the protections that they afforded, and ultimately you have the rule of law and enforcement on the back end if you do have bad actors, and you will have bad actors, the trust will gradually grow. And I do think there will be a symmetry between what we have experienced in this country over 100 years, with our financial markets, and what the potential is in digital assets, as well.

Mr. VINDMAN. Thank you. I think one of the important points here is the fact that conflicts of interest have to be part of the regulatory regime, to make sure that we maintain trust. And, frankly, the trust that is being developed now in digital assets that have promising futures is not undermined by conflicts, something completely outside of the control, really, of the industry, and sort of prevent the growth of this industry.

So with that I yield back. Thank you.

Mr. STEIL. The gentleman yields back. The gentleman from Tennessee, Mr. Rose, is recognized.

Mr. ROSE. Thank you, Chairman Steil, and thanks to Chairman Johnson for holding the roundtable today, and thank you to our witnesses. And please know that your participation today will prove to be very helpful as we go about the work of trying to figure out how to fill in the gaps in the regulatory framework in this space.

I am fortunate enough to sit on both the Financial Services and the Agriculture Committees and have seen firsthand the level of coordination needed between the committees to get digital asset market structure legislation out the door. This partnership is telling for two reasons, I believe. One, it demonstrates Congress' commitment to providing the digital asset ecosystem regulatory and legislative clarity. And two, it signals the need for the regulators under each Committee's jurisdiction to work together, as well.

Mr. Davis, while you were at the CFTC, was there ever a policy issue that required such coordination between multiple Congressional committees and your agency?

Mr. DAVIS of Washington. I guess I am not aware of a particular policy, but I know that the Chairmen that I served under, Chairman Giancarlo and Chairman Tarbert, were actively talking with Congress and with their counterparts at the SEC. I know there was engagement among the commissioners. I know there was engagement among the Divisions of Enforcement and some of the other divisions.

So again, I don't know if there was a specific policy, but I know there has always been an active amount of engagement between both of the agencies and with Congress.

Mr. ROSE. And Mr. Davis, do you agree that the SEC and CFTC must work together in order to adequately oversee this space? And tell us, if you will, maybe one or two of the key challenges with regard to such a partnership.

Mr. DAVIS of Washington. Absolutely. That coordination is critical. I think as has been alluded to already, one of the complications in the 50 year relationship between the CFTC and the SEC is sometimes not having a full understanding of where the line is between the jurisdiction of the two agencies. I have spent an inordinate amount of time in private practice, advising clients and litigating the SEC on that very question.

And so I think where Congress can provide an enormous amount of benefit in this space is as precise and specific delineations as possible between the jurisdiction of the SEC and the CFTC. As I noted in my opening remarks, I think Section 202 of the draft bill is a good example. I think it is pretty clear when you are reading that there are a host of secondary market transactions between third parties, that the bill would place within the CFTC's jurisdiction pretty clearly.

Those types of provisions from Congress are critical, because whatever Congress passes there are going to be some edge cases where the CFTC and the SEC either don't agree or have difficulty getting to agreement. And so the more precise, the more quantitative, like Congress has done with security futures, the more accurate wording that you use, the less opportunity there is for fights between the agencies to happen in the future. There are going to be disagreements, but Congress can do a great job in this bill of really narrowing the area of disagreement by making as clear as possible where those jurisdictional lines are.

Mr. ROSE. And I know we want to do that, but as I am sure you appreciate, the more specific we are, the greater the potential that we wall off the opportunities for future innovation that might be beyond those rules. So it is kind of a delicate balance to strike, and we appreciate your input.

Many traditional financial firms have expressed interest in becoming involved in the digital asset ecosystem. I talk to these businesses on a regular basis. A key objective of any digital asset market structure regulation should be, in my view, to put these more traditional entities on an equal playing field with the crypto native firms.

Mr. Davis, what is necessary, from a regulatory and legislative perspective, to create a level playing field for traditional as well as new market entrants?

Mr. DAVIS of Washington. I think, again, clarity, so that smaller entities have an easier time entering the ecosystem. I also think the CFTC registration system right now for current registrants is clear about what you need to do and not to do, to get registered with the CFTC. I think applying that same type of registration principles, and coming up with a process that is efficient. It is important that registrants, that those registrations not be delayed, because delay impacts the ability of certain participants to weather that process and to be able to get registered.

So it is important to have an efficient process where any type of registrant who can satisfy the core principles is allowed a registration.

Mr. ROSE. Thank you, and thanks to all of our witnesses, and I yield back, Mr. Chairman.

Mr. STEIL. The gentleman yields back. The gentleman from California, Mr. Liccardo, is recognized.

Mr. LICCARDO. Thank you, Mr. Chair. Thank you to all the witnesses for sharing your insights. I appreciate learning here.

I do join in the frustration expressed by the Ranking Member. We can't ignore the elephant in the room. There is an emoluments clause in the Constitution for a reason. There have been anti-bribery statutes for decades for a reason. And since apparently we need more, I introduced, a couple of months ago, the Modern Emoluments and Malfeasance Enforcement Act, which is H.R. 1712, and I encourage my colleagues to join as cosponsors and join the couple dozen folks who have already joined in, because apparently we need a law to tell the President and other Federal officials that they cannot get engaged in issuing digital assets or commodities or securities or anything else that, of course, would have been obvious to us before any of us ran for office.

I would like to get to the gist here, because I think there is some really important testimony. We obviously just saw yesterday, for the first time, a draft of very important legislation that I know we will be considering in a matter of days for markup. And I guess, Chair Behnam, have you had a chance to review the draft? I know it is quite lengthy.

Mr. BEHNAM. Yes, Congressman, thanks for the question. I think I received it about 3 or 4 o'clock yesterday. So I did review it section by section, and I went through a little bit of the text. So I have a general idea but there is more work to be done.

Mr. LICCARDO. I won't hold you to the detail, but you mentioned six recommendations, in particular, in your testimony. I appreciate that—the anti-money laun-

dering, the KYC, the customer ID program. Based on your review, do you believe that this draft addresses some of those core concerns?

Mr. BEHNAM. Short answer is yes because giving the authority to the CFTC to register some of the intermediaries in the digital asset space in a traditional way, that are based off of the core principles of the Commodity Exchange Act would mandate and permit also the CFTC to create a regulatory structure that does all that I have said and that you repeated, around AML, KYC, CIP, cyber, conflicts of interest, and other very important core principles.

Mr. LICCARDO. Are there any shortcomings or gaps that you believe need to be addressed?

Mr. BEHNAM. At my first reading, in terms of the core principles and how they would apply to the digital assets, there are no major gaps. There are some other issues that I probably identified that I think are worth a conversation. But with respect to your specific question, nothing glaringly stood out at me as I reviewed it last night.

Mr. LICCARDO. Then with regard to the other five recommendations, was there one or two that stick out that you think we need to be attending to as we are considering a markup of this draft?

Mr. BEHNAM. Well, ultimately the thing that concerns me is, and I mentioned this in my written testimony and oral testimony, as well, we have these two market regulators, and they have historically functioned quite well together over many, many decades. It is not an ideal situation, I understand, for registrants who play in both markets. I suggested that you have dual registration in many circumstances, in traditional securities markets and derivatives markets.

I don't think, as much as there will be people who oppose this path, I don't think it is one that we want to stray from. There will be circumstances where participants in the digital security space and the digital commodity space should be dually registered. If you don't go down that road—and the exact words I used is if you have a model where there a deferral or a notice filing to another agency—you create gaps, and the market will then start to observe and identify these gaps and exploit those gaps.

So it might be hard to imagine what those circumstances are precisely, today, but given my experience I have no doubt that if there are situations where there is not comprehensive, exclusive licensing authority for each agency in their distinct jurisdiction, you may be creating unintended risks that will ultimately come back to hurt us.

Mr. LICCARDO. Mr. Tusar, as you think about Coinbase's many customers, do you share concerns of Chair Behnam about the possibility of those gaps existing in ways that could harm investors?

Mr. TUSAR. We do worry about gaps, yes, and thank you for the question, Congressman. In addition, however, I would say we also worry about the fact that digital assets are unique in that unlike futures and equities, users may not distinguish between what is a digital asset commodity and what is a digital asset security, and the various forms of token classification that the bill lays out very successfully.

And, therefore, from the end-user's perspective, we think it is important that these two regimes are as harmonized as possible so that the same sorts of protections are afforded, because that will be sort of the expectation of those that are using digital assets. So to the greatest degree possible, while respecting the unique lanes that each agency lives in, to the degree that the mechanics of how trading and custody and those sorts of things can be harmonized, I think that will be critically important for the bill.

Mr. LICCARDO. Thank you, gentlemen. I yield.

Mr. STEIL. The gentleman yields back. The Chairman of the Financial Services Committee, the gentleman from Arkansas, Chairman Hill, is recognized.

Mr. HILL. Well, thank you, Chairman Steil, and thank you again for your joint leadership of this effort. Under the Biden-Harris Administration the SEC used a whole, wide range of interchangingly and interchangeably terms for digital assets, confusingly interchangeably terms, that were arguably, but most of them were themselves not securities, creating a lot of legal uncertainty. I mean, it just went around and around. I felt like for 4 years we went around in circles on that. And the lack of clarity made it practically impossible for any market participant to come in and register under the rules at the SEC. It was confusing to Congress. It was confusing to law firms. It made a lot of money for law firms, I assume, here in Washington, D.C.

So in light of all that confusion, market participants developed processes to analyze and classify assets under their own rulemaking. So Mr. Tusar, you certainly are one of those that, at Coinbase, you all created your own listing standards. Could

you explain how you navigated that as a public company and a registered firm? How did you navigate that listing process?

Mr. TUSAR. Yes, thank you for the question, Mr. Hill. Coinbase has, today, a very rigorous listing standard that looks at a variety of qualitative and quantitative factors. We have listed approximately 300 assets for trading on our centralized exchange out of the thousands and thousands that we evaluate, so we have about a 90 percent rejection rate.

The sorts of factors that we look at are, is it secure? Is the underlying blockchain on which this is built secure? How does the asset fare under our interpretation of the *Howey* rubric? Is there an active development community? So there is a whole host of factors that we look at. And after that, we look at is this an asset that customers want and are asking us for, and subject to those things we will go ahead and list it.

But we have this standard in place that we have developed over a number of years, and we feel very good and strongly about.

Mr. HILL. How would you feel about nothing having uniform listing standards that you would find in a regulatory framework approach? Does that hurt the ecosystem's development? Has it driven business offshore? You may be doing a good job of it, but has it been confusing and not productive for other people who are trying to perform an exchange type function?

Mr. TUSAR. Thank you for the question. I think one of the most important elements of this bill is providing that clarity. Out of all of the things in the bill, the token classification is probably the single most important element, because that is precisely, to your point, what will decide whether somebody feels comfortable and safe doing their project and development here in the U.S. or will move it overseas. So I think it is critically, critically important.

Mr. HILL. Would you say for global leadership in the U.S. where on a bicameral, bipartisan basis, that it important that we craft a regulatory framework and have a dollar-backed stablecoin regime in the U.S.? Do you think both are important?

Mr. TUSAR. Both are critically important.

Mr. HILL. Which one is more important, in your view, big picture-wise, for the ecosystem?

Mr. TUSAR. Oh, that is a good question, Chairman.

Mr. HILL. You don't want to be pinned down?

Mr. TUSAR. I think they are both equally important.

Mr. HILL. Okay. I will take that as a good answer.

Mr. Rathmell, you have done so much work in the early emerging stage in the digital asset space. How important is it to have a regulatory framework so that you know what the governance token sales and blockchain system rules are to you for all your emerging companies? I can't imagine they even know how to undertake their projects. How do you know what to invest in without a framework?

Mr. RATHMELL. Thank you, Chairman. You are exactly right. This is one of the great challenges we have run into in this space. I have advised companies for the better part of a decade in this space, and I have never seen so many seed-stage founders who are so curious about the current state of policy and legislation, and they probably all could take the California bar if they wanted to. It is quite impressive.

But it is also distracting. It is incredibly distracting from founders who want to build the future of capital markets, the future of digital infrastructure, the future of financial infrastructure here in America, that they have to become armchair lawyers and pay, again, millions of dollars in legal fees to try to make sense of the current law, which is inherently unclear.

Mr. HILL. I appreciate the whole panel. Chairman Behnam, it is so good to see you, and thank you for your leadership on the Commission and for your continued advice and counsel to our Members on both sides of the Capitol.

And with that, Mr. Chairman, I yield back.

Mr. STEIL. The Chairman yields back. The gentlewoman from Maryland, Representative McClain Delaney, is recognized.

Mrs. McCLAIN DELANEY. Thank you, Mr. Chairman, and thank you to our witnesses again for being here today. I found each of your testimonies really illuminating, and I really look forward to working more on this issue.

As was discussed, we are in the middle of a digital revolution where assets no longer need to be physical to have value. And this presents great opportunity and serious risks, especially with the anonymity of digital assets being exploited for potential illegal activities. Fraud, volatility, scams, money laundering are all threats that an unregulated and unchecked system allow to thrive. And without oversight we invite chaos in our financial systems and in harm's way.

I am deeply supportive, however, because I sit on the Ag Committee, of the innovation that digital assets can offer in so many different fields. But I do have real concerns, and in particular, about the deep concerns about actors that are drawn to markets that lack a fundamental regulatory framework. And a lot can happen on the Dark Web, including human trafficking and money laundering and other illicit activities, and that is why I think it is so important that we have smart, nimble, market-driven innovation regulations, not to stifle innovation but to shape it, but to weed out bad actors, protect consumers, and ensure transparency and stability.

So I have so many questions to focus on, but I am going to start with this first one about maybe some illicit financing. Yesterday, the Financial Services Committee and Ag Committee released this draft bill to establish a regulatory framework, and for both Mr. Behnam and Mr. Miller, could you share any preliminary thoughts you had on what this bill does right and how we can make sure it relates to anti-money laundering and where it can be strengthened? And just how prevalent are risky digital asset exchanges, such as those that lack know-your-customer, CYC rules, or are connected to the Dark Web? And are there any lessons from the EU's MiCA regulatory regime?

Mr. MILLER. Sure. So I will agree with what Mr. Davis and Behnam both said in that giving clear authority for overall trading to the CFTC, I think it is a huge advancement here. As we have said, regulatory unclarity or ambiguity gives gaps that bad actors can exploit and makes it harder for those who are trying to enforce the laws to actually get in and do that.

So I think the fundamental structure offered here of we are clearly making these as digital commodities, and if you are very early on and need to pre-sale some of those in order to raise the funds to build the network, that becomes under the SEC authority. I think that general concept, we just got the bill so still working through some of the details there, but I think that fundamental structure is very good and allows kind of the expertise when it comes to exactly preventing bad actors from exploiting the system, the same way that they do every other monetary system that exists, right, like people, like bad actors especially like money. They are going to try and take advantage of anything that is there.

So I think by creating the really clear structure that is being proposed and that we are talking about today is the number one thing that we can do to—

Mrs. McCLAIN DELANEY. To weed out bad actors.

Mr. MILLER.—to weed out bad actors.

Mr. BEHNAM. Thanks, Congresswoman. I will point out one specific thing because I suggested this earlier, to an earlier question. Within the core principles, a lot of the issues you raise, which are critically important, will be addressed, just by default of what the core principles require.

But from a CFTC perspective, relative to other agencies within the U.S. Government, AML is a key one that I think would have to be more prescriptively outlined in the legislative text. Again, I haven't had a full chance to read through it so it may, in fact, be there. But there was always a delta between the U.S., CFTC, and the Treasury Department within FinCEN and the authority that they have around anti-money laundering.

Know-your-customer is a very key component, certainly at the Federal level but also, Mr. Tusar mentioned, the state-level requirements that many of the intermediaries have to follow. There are so many requirements along the state lines. But I say within the Federal regime, AML is a key component, where it can be strengthened within the market regulator requirements.

Mrs. McCLAIN DELANEY. That is great. I am going to reference something that Congressman Rose said earlier about consumer protections and a level playing field. Creating safe harbors or special exemptions for digital assets risk is great, but we could disadvantage players like community banks that do a lot of financing for farmers. In this new legislation discussion draft on digital asset market structure, how can we make sure that there is an even playing field, and again, are there any lessons learned from the EU's structure. I am diving deep, and I still haven't looked at all 212 pages yet, so I am trying to figure out from you all how you all are seeing in terms of this other competitors and making sure that there is an even playing field.

Mr. BEHNAM. Congressman, very briefly I would say in terms of your first question and level playing field—

Mr. STEIL. Cognizant of the time, I would ask maybe you would just offer the reply in writing to the gentlewoman's question. We will reclaim the time. We just want to make sure we get through all of our questions here today.

We will now recognize the gentleman that we see in stereo, both in the portrait on the wall and here in the flesh, Mr. Lucas, from Oklahoma.

Mr. LUCAS. That is a lovely face on the wall, isn't it, Mr. Chairman? Thank you. [Laughter.]

Mr. LUCAS. I want to start with my good friend, Mr. Behnam. Would the bill we are considering today appropriately account for the risk management strategies of digital assets covered by both the regulators, and along that line, how should we think about cross-margining for transactions under the CFTC and the SEC?

Mr. BEHNAM. Thanks, Congressman, and I did mention this in my written testimony as a benefit of cross-agency collaboration, where I think the initial reaction is always burdensome, duplicative regulation by multiple agencies is a challenge. I think it is important to be comprehensive, as I alluded earlier to Mr. Liccardo, and I think in balance we should lean towards comprehensive regulation to avoid those risks, which can cause unintended consequences.

That said, to your question, there are mechanisms within the two agencies, like portfolio margining, like other netting mechanisms, that would enable market participants to manage their balance sheets and their capital requirements if they have exposure to products that do have symmetries along risk lines.

Mr. LUCAS. Continuing with you, Mr. Behnam, on a related topic that is near and dear to my heart, sitting on both the Financial Services and the Ag Committee, should we apply this same logic to the clearing of U.S. Treasuries and their derivatives? We have discussed this before, but it is worth repeating. How can we incentivize clearing and making it a more friendly, regulatory environment, particularly for clearing of our most critical asset class?

Mr. BEHNAM. Thanks, Congressman, and you and I have probably had this discussion in the past, and as the clearing mandate begins to roll out over the next 12 to 24 months, if not sooner, clearing is a healthy component of market infrastructure. We learned that after the financial crisis in 2008, and I think that is a reason the SEC made steps in the Biden Administration to mandate clearing. But we do have to incentivize it and make sure that folks want to be in that market. We have seen high periods of volatility in the Treasury market over the past few years because of COVID and some other sort of mini-flash crashes, and we want as many people in there as possible. Capital restraints are one of the biggest barriers to entry into the Treasury market, and I do think what you suggested, different mechanisms to allow netting across different products, whether it is cash in futures or otherwise, will create incentives, but also if well thought out, will also be protected by smart regulation and not create unintended consequences.

Mr. LUCAS. Turning with my remaining time to Mr. Davis, in my view the draft we are considering today is a good start to creating a simple regulatory framework for digital asset markets. However, even the most simple framework must include clear revenues for market participants to get technical assistance and feedback. And that is why my bill, the Securing Innovation in Financial Regulation Act codifies LabCFTC and the SEC's FinHub. Both of these offices make the Commissions more accessible to market participants and foster fintech innovation.

Mr. Davis, can you speak to the benefits for market participants of having a responsive and accountable regulator?

Mr. DAVIS of Washington. Yes, greatly beneficial. LabCFTC is near and dear to my heart. When Chairman Giancarlo created LabCFTC he had it report to me as the general counsel, which was a great benefit to me and I think to the agency. It was eventually moved to report to the Chairman, and then Chairman Behnam made it the Office of Technology Innovation, I believe. So it has been a great progress across Administrations.

So I am a big advocate of having a portion of the agency being focused on innovation and focused on engaging with the public. During my tenure at the CFTC, LabCFTC met with hundreds of people who were interested in CFTC space. They were interested in fintech. They were interested in digital assets. And LabCFTC didn't give advice *per se*, but was able to give information, to give some ideas about where entrepreneurs and other interested parties could go to help navigate the regulatory structure that we have here.

And again, that internal entity was able to advise the agency about what it was seeing out in the market. It was really an attempt to help the agency have its finger on the pulse of what was going on with the public.

So I think that type of outreach, that type of activity is critical for any agency.

Mr. LUCAS. Seems like my bill might be on the right track. With that, Mr. Chairman, I yield back.

Mr. STEIL. The gentleman yields back. The gentleman from Alabama, Mr. Figures, is recognized for 5 minutes.

Mr. FIGURES. Thank you, Mr. Chair, and thank you to the witnesses for your time here today.

Look, I think it would be remiss not to, as we are seeking out answers and a path forward on further legitimizing this very innovative industry, I think it would be remiss not to mention the impact that the President's own action in this space is having on these efforts, when this would be something that we can come to agreement on. But when we see the decay, the erosion of ethical standards and norms of just acceptable conduct from government officials using their position for personal gain, that is dangerous. It is dangerous and it is not helpful to what we are seeking to do in this industry. I mean, can you imagine an environment where President Obama said, "I am only meeting with people who buy my cryptocurrency"? Or President Biden. Can you imagine what the reaction would have been? It certainly wouldn't be silence. It certainly wouldn't be saying, "Oh, that is okay." We cannot continue to go down this road, certainly not at a time where we are on the precipice of doing something that is much needed.

Mr. TUSAR, I want to start with you. In the absence of an environment where we have had clear regulation, can you talk to me a little bit about the steps that Coinbase has taken? Because I can remember a world where Coinbase was at the frontier of essentially begging for regulation in this space, and you guys have gone above and beyond in terms of trying to enhance public confidence and trust and guard against scams and fraud. Can you talk a little bit about the efforts that Coinbase has engaged in over the past several years in this space?

Mr. TUSAR. Thank you for the question, Congressman. Coinbase, as you say, has been leaning into trust and compliance from its outset and using that to differentiate ourselves in a space that sometimes has been challenged in that regard. And that has taken a few different forms.

Number one, as I mentioned today, we are a money services business under FinCEN. We apply the same KYC and AML standards that banks do today. We are registered in any place that we can. Today we operate a designated contract market with the CFTC. We are registered as a registered investment advisor with the SEC. So we have really leaned into, wherever possible, registering under the appropriate authorities.

And I think, most importantly, have been advocating, through policy efforts and others, for Federal-level regulation, precisely what this bill aims to accomplish. And I think we are quite excited about the potential for this bill to pass and move forward with Federal-level regulation.

Mr. FIGURES. Thank you. I look forward to continuing to work with you guys.

One of the benefits of cryptocurrency has often been financial freedom, access to financial resources, particularly for marginalized communities. It is something that we consistently hear about and consistently hope that we can further that goal.

Can you guys talk to me about how a more clearly define coordinated regulatory framework gets us closer to that end, and making sure that we are expanding access of financial resources and tools to communities that don't typically have them or communities that typically face significant barriers in accessing it, and making sure that this is not just an industry that benefits Wall Street but also hits the everyday person in terms of accessing its full potential.

And we can start, left to right.

Mr. RATHMELL. Thank you, Congressman. It is a great question. Financial inclusion is absolutely part and parcel of the promise that the digital asset industry has promised to bring. It has already had great success on that front.

I think, most crucially, in looking at the draft legislation today, is ensuring that we bake in some of the core promises of digital assets as a technology. So disintermediation between consumers, kind of free and fair access to open-source software, transparency, auditability, accountability. That is really how we are going to realize the promise of financial inclusion that this technology can bring.

Mr. FIGURES. Mr. Miller?

Mr. MILLER. Yes. The current gap in regulation and clarity has kept a lot of players out of the space, folks who do have existing relationships with members of the communities that you are talking about, where if they were able to leverage those relationships they would let those members of those communities and the underserved communities get access to these.

So I think by creating clear structure for them, by creating a clear set of rules, we are going to bring in a lot more players to the space, which obviously gives consumers a lot more choices to work with, as well.

Mr. FIGURES. Thank you. I yield back, Mr. Chair.

Mr. STEIL. The gentleman yields back. The gentleman from Ohio, Mr. Davidson, is recognized.

Mr. DAVIDSON. Thank you, Mr. Steil. Thank you, Chairmen. I thank our colleagues for sticking around and making the most of this gathering. It is a shame

it is not a hearing, and I hope we don't lose the momentum that we need to finally get something done in this space.

I have been working since I got to Congress in 2016, to provide some form of legal clarity. We thought we had momentum in 2018 on the Token Taxonomy Act, to just define really one of the most fundamental questions, a bright-line test for what is and what is not a security. It is crazy that we don't yet have that. I mean, you think of a sport. Usually that is one of the first things that you do is you define, well, what counts as a score? You get it across the end line, you get it across the goal, through the net, who finishes the race first—and that is part of why people love it. You know for sure. Even with that there is debate every now and then. Some umpires miss balls and strikes from time to time. But we have added technology to make it so it is almost impossible, whereas a viewer, watching it on TV, you don't know whether it was a ball or a strike, and batters have homed in on that in baseball.

But a lot of this space is more like modern art or interpretive dance, where it is all in the eye of the beholder. You guys have all developed your own tests and been able to operate in the market, to some extent, in the context where you have dealt with this uncertainty, and frankly, at great risk to you and your investors.

So Mr. TUSAR, as you have all kind of highlighted, getting this bright-line test is vital. Do you think all five of you, given the text that we currently have before us, would apply that test and get the same answer?

Mr. TUSAR. That is an excellent question. Thank you, Congressman. The token taxonomy and classification in the bill is not really my area of expertise. My hope would certainly be yes, and my sense is this is a significant step forward from what existed before.

Mr. DAVIDSON. Thank you. Mr. Davis, do you feel, having read the text, that everyone would get the same answer?

Mr. DAVIS of Washington. I think we would be close. I think we would be close.

Mr. DAVIDSON. Hopefully, we want 5 and 0. I mean we certainly don't even really like the idea, with a sample size of only 5, that there would be a 20 percent risk of missing. So we would love to see it be 5-0, and I hope we continue to refine it so we are positive everyone is going to look at the same thing and get the same answer.

So I think that is the kind of clarity the market needs. That is what is going to attract capital investment in this space. And I think a lot of people really just moved on and said, "Yes, I'm not going to risk all my stack over this." And certainly when you look, Mr. Rathmell, Andreessen Horowitz has done that to some extent, and looked at other sectors, and made comments about it.

I think one of the other things that has held a lot of interest is self-custody. I mean, if you really just change who the account-based relationships are, you really haven't radically changed the market. The tech is kind of interesting. But the space isn't even really interesting without self-custody. And I think about self-custody in relation to the Second Amendment. I mean, the Second Amendment widely known, whether people like it or hate it, it says the right to keep and bear arms shall not be infringed. But think if it said the right to keep and bear arms shall not be prohibited. Think of all the layers that could be put onto that.

So when we think about the text here today, before us, it says, "The head of a Federal agency may not prohibit," whereas my Keep Your Coins Act, that I have introduced, says, "The head of a Federal agency may not prohibit, restrict, or otherwise impair." It doesn't say "infringe," but it is essentially "impair." You can't limit it. So one word, "prohibit" *versus* "impair," you think about the difference there.

Mr. MILLER, could you highlight what is at risk with the inclusion or exclusion of one word?

Mr. MILLER. Absolutely, and it is not just the Second Amendment. It is the First Amendment. It is the Fourth Amendment. "Prohibit" is a much less protective term than "impair," "infringe," "abridge," any of those.

And I think the entire point of what we are talking about with this industry is decentralization, and without the ability for people to run their own software, to self-possess their own assets, in their own wallets, on their computers, we lose a lot of that decentralization. As you said, you are just moving to a different centralized authority.

And so to me, yes, it is absolutely critically important that we preserve the right and access to self-custody, and the protections for developers who build those self-custodial laws. If you are not actually holding on and possessing the private keys for someone, then no, you aren't controlling that.

Mr. DAVIDSON. Right, and you shouldn't be regulated as a custodian. So those are important distinctions. I wish I had about a half hour of your time, personally, but

thank you for what you do, and may God bless you all with great success, and I yield back.

Mr. STEIL. The gentleman yields back. We will go from the state of Ohio to the state of Indiana. Mr. Messmer is recognized for 5 minutes.

Mr. MESSMER. Thank you, Chairman. The digital asset ecosystem in America is operating under a reign of terror, as I think each one of your testimonies have pointed out. It is ironic because the heavy blank of regulations, litigation that are meant to protect consumers is suffocating the very innovation that can improve safety.

Mr. TUSAR, can we agree that the enforcement-first approach to regulating digital assets has, on aggregate, been harmful to the digital asset industry in America?

Mr. TUSAR. Thank you for the question, Congressman. A hundred percent yes, and it has also harmed competitiveness of America on the global stage.

Mr. MESSMER. Okay. Thank you. And Mr. TUSAR, also, you drew the conclusion that industry is incentivized to set up shop outside the American borders due to the current disjointed regulatory framework. What safety risks does this present for American consumers?

Mr. TUSAR. Thank you for the question, Congressman. In the end, consumers want and should be afforded the same protections as they get today when they hold futures or equities or these sorts of things, and bringing it to a Federal-level regime would afford those protections, where today those don't exist. And it is critically important.

Mr. MESSMER. Thank you, and I agree. Americans are always safer when regulations are built in D.C., not in the EU or Singapore or anywhere else.

As a principles-based regulator, the CFTC offers flexibility and outcome-driven compliance. The SEC, on the other hand, is a rules-based agency emphasizing prescriptive compliance frameworks. This contributes to the regulatory tension in emerging markets like digital assets, where we are still fighting to figure out what is the best regulatory approach. Clear guidelines are, without a doubt, necessary, but we have to thread the needle. They can't be so prescriptive that they become obsolete as technology evolves.

Mr. Davis and Mr. Rathmell, I know it has been asked, but it is important enough to ask again. In your view, is either the SEC or CFTC approach a better fit for regulating digital assets?

Mr. DAVIS of Washington. As I noted in my comments, I think for the secondary market transactions and for a lot of the commodity market activity that is happening right now, the CFTC is the natural regulator. They already have a lot of experience in the area, and core principles is very consistent with the growth of the digital asset market. I do agree that there are some circumstances initially in the development of certain coins that you may want to do a capital-raising activity. That type of activity is more within the purview of the SEC.

Mr. MESSMER. Thank you. Are there specific needs for prescriptive rules, and if so, how can Congress best future-proof those?

Mr. DAVIS of Washington. Yes, I mean, I think Chairman Behnam talked a little bit about this with like anti-money laundering, for example. AML/KYC is an important aspect of any regulatory ecosystem, so that might be an area where you might want to give a little bit more specifics about how to proceed.

But I think a number of things, like reporting and cybersecurity and operational resilience are the types of things where we need to have a productive discussion with the industry about what the technology is and what the technology can do. And only through that mutually beneficial relationship can both the regulator of the industry determine the best courses to meet the goals that a core principle regime has.

So I would err on the side of flexibility at the beginning, and then the regulators have the opportunity, under core principles, to make more prescriptive rules, if circumstances require.

Mr. MESSMER. As needed. Thank you. Mr. TUSAR, Mr. Davis, earlier Chairman Johnson got each of you on record as saying the lack of a regulatory framework is a threat to consumers. Can you give specific examples of a risk consumers will face if the flaws in the current regulatory structure aren't resolved?

Mr. TUSAR. Thank you for the question, Congressman. I think we have referenced consumer asset protection, for example, the sorts of regimes both on the CFTC and the SEC side, that clearly delineate the assets that belong to the customer and the assets that belong to the entity, in the event of insolvency or bankruptcy. Those kinds of protections are critically important to engendering the trust that we have talked about quite a bit in this hearing, and ultimately to protecting consumers in the face of issues. And that is critically important.

Mr. MESSMER. Thank you. Mr. Davis, anything to add?

Mr. DAVIS of Washington. I don't have much to add. It is a part of both the SEC and the CFTC regimes for vibrant customer protections. They take slightly different forms, depending on the nature of the market. But, for example, giving the CFTC authority over the spot market will extend those customer protections to customers who want to buy Bitcoin and Ether and those other digital assets.

Mr. MESSMER. Thank you. I yield back my time.

Mr. STEIL. The gentleman yields back. The gentleman from Florida, Mr. Haridopoulos, is recognized.

Mr. HARIDOPOLOS. Thank you, Mr. Chairman. I appreciate everyone coming in today and once again highlighting the fact that we lost 4 years of reality, and the capital markets have gone elsewhere because of this uncertainty. And it is frustrating as we go through meeting after meeting, hearing the horror stories of the last 4 years, where so many folks want to do business here in the United States and basically are turned away or led the wrong way by the previous Administration. And I very much love the fact that the Ag Committee and, of course, our Financial Services Committee is working in tandem here to get this done, in the place of playing some politics, which always happens in this building too often.

That said, it would help me if we could just kind of go down the list, and I apologize, I have been kind of in and out of meetings today. Could you walk me through, maybe in just a brief way, starting with you, James, when you were negotiating or talking with the SEC prior, trying to figure out this regulation, walk me through how much time you spent with each of the folks at the SEC and what they are telling you along the way, and then what the end result was. So if we can just kind of walk down that, that would be great.

Mr. RATHMELL. Yes, so the history of the industry's engagement with the SEC is how many years, the better part of a decade. And so I think it has changed and evolved over time, under various Administrations. I can say that the challenge that we have consistently run into is recognizing the need that the existing rules are not a perfect fit for the industry and for the flourishing of this industry in the United States, and inaction, unfortunately, meeting over meeting, consistent inaction to actually move the ball forward.

Mr. HARIDOPOLOS. Mr. Miller?

Mr. MILLER. I think one of the big challenges is the SEC is built to deal with much larger, more established companies than the startups who are working here. So as an example, when you are a company of our size, you don't talk to the SEC. Your expensive lawyers talk to the SEC, right. They don't answer questions, really. They ask you questions. You have to try and interpret them. So it just means that every interaction you have, and there are, obviously, some very good people at the SEC, who try and work with folks. But it just means that everything is weeks and weeks of turn, tens of thousands of dollars for a single question when it comes up, if not more, and it comes back to why we are asking for purpose-fit, clear regulation, instructions for these folks. They have made attempts such as with FinHub to do this. But the more we can move to that, so that the cost of engaging in this kind of process approaches that of a Reg D exemption, where you are spending \$100,000 to do a deal instead of what we experience with a Reg A, where you are spending millions to do a deal, like that is what it is going to take to bring back the certainty and predictability that entrepreneurs need to start their companies here.

Mr. HARIDOPOLOS. Thank you.

Mr. DAVIS of Washington. Most of my interactions with the SEC over the past 4 years have been on the enforcement side in defending crypto companies who either approached the SEC about trying to figure out something or were met with a subpoena by the SEC. My clients have been spending a lot of money on their litigation costs as opposed to kind of developing regulatory solutions to the types of puzzles that we have in this space.

Mr. HARIDOPOLOS. Thank you. Mr. Tusar?

Mr. TUSAR. Thank you for the question. Our experience has been one of attempting to come in and register, really only to find that there was not a path, and that was years of attempting to find such a path and then pursuing the litigation that we had. I will say that that has changed quite a bit now, and there is more engagement, which we are very grateful for. And I think that engagement from the agency, as we have also seen from the CFTC for quite some time, is critical to finding the right rules of the road and providing the clarity that is needed.

Mr. HARIDOPOLOS. Thank you.

Mr. BEHNAM. Not sure I am fit to answer this question perfectly, but I will say, Congressman, in response, this is a growing industry and there are a lot of novel legal questions and policy questions and risk questions. So as much as the past may have not been ideal, I think it is encouraging the direction of travel for the committees and Congress, and I think providing this clarity is obviously critical for folks

sitting at this table. But as I have said many times, my focus is always customer protections and market resilience, and I think that should be the priority of the Committee, as well.

Mr. HARIDOPOLOS. I appreciate it. And one last thing, Mr. Chairman. We had a wonderful meeting last week with the CFTC and the SEC, and some Members of the Financial Services Committee have expressed concerns that only the SEC can handle this new issue. I happen to think that the CFTC has the capability, given the work that they have done, of course, in the commodities and handling billions of dollars.

Are there any reservations any one of you five have about the capabilities at the CFTC to handle this type of issue.

Mr. DAVIS of Washington. None.

Mr. MILLER. No.

Mr. TUSAR. No.

Mr. BEHNAM. Congressman, I am going to add a little bit. I know we are out of time, but this is an important point, and I did submit it in my written testimony so I would encourage you, if you have time, to read it. It is more than just a question about resources and size.

Mr. HARIDOPOLOS. I agree.

Mr. BEHNAM. I talked about this in terms of when there is a Congressional mandate, appropriators appropriate money that is commensurate with the mandate. So if Congress does pass a law and the President signs it, the expectation should be that there will be additional funds.

Mr. STEIL. The gentleman's time has expired. You can offer more in written testimony.

Mr. HARIDOPOLOS. Thank you. I appreciate the indulgence.

Mr. STEIL. The gentleman yields back. The gentleman from Iowa, Mr. Nunn, is recognized.

Mr. NUNN. Well, thank you, Mr. Chair, and I want to say thank you to the bipartisan nature of this conversation. This is bigger than any one party. This is going to be the future of where our nation is going forward together. So thank you for leading the charge and making sure that these conversations happen.

One of the biggest challenges in the digital asset space, as we all know, is the overlapping claims of authority between both the Securities and Exchange Commission and CFTC. Being a guy from Iowa, we know CFTC very well. As a Member of both the Financial Services and the Ag Committee, I think that we saw conflicts occur firsthand when the SEC, under its previous leadership, attempted to take control of nearly all digital assets and effectively sideline the CFTC. That is now how this is designed, and it should not be how it is going forward.

So I would like to consider an analogy. My kids got a chocolate coin for Easter, and in this, on its own function, it can also be like a commodity with a wrapper around it. Similar to corn or soybean on how it happens, it can then be traded, when it has this wrapper around it, like a security.

When first offered through an ICO, a funding mechanism as it is, it is wrapped in a structure that resembles a security offering. The underlying Ether, in this case, was still chocolate, but because of the wrapper, Ether was part of the securities transaction at the time, in this case the gold foil.

This wrapper now has come off for Ether, and it is traded and functions like a commodity. And I would like to offer this discussion, Mr. Chair, that blockchain projects need the option to raise capital and grow, but the current landscape is still too complex, and prior Administrations actually only added to the confusion, making the ability for this gold coin never to have come into existence if it had been left.

Look, Mr. TUSAR, you have been the Vice President, you are currently the Vice President of Coinbase. What are some of the key characteristics that distinguish the digital asset functioning as a commodity *versus* one that would function as a security?

Mr. TUSAR. Thank you for the question, Congressman. I will say that not being a lawyer and not really going deep on sort of the exact interpretation of *Howey*, it is not my area of expertise, but my hope is that this bill makes clear the distinction between those so that we can choose the appropriate regime and regulatory authority to apply.

Mr. NUNN. And would you agree that legislation would help with that, coming out of this Committee?

Mr. TUSAR. Yes, Congressman.

Mr. NUNN. Absolutely. Chairman Behnam, we have had conversations before. I appreciate your service again on both sides of the aisle here. But your leadership at CFTC really helped establish this in a lasting opportunity for us. Last Congress, we publicly discussed how Ether was either a commodity or wasn't. Do you still be-

lieve CFTC is the right regulator to take Ether, after it is wrapped, back in the community space?

Mr. BEHNAM. Congressman, thanks for the question, and the short answer to that question is yes. We had discussions about some of the components of *Howey* and the decentralized nature of Ether and other tokens, and ultimately that is where the line needs to be drawn. It is not a perfect analysis, certainly with a 100 year old test, but I do think, as I said in my written testimony, it is a pretty durable precedent that we should base the analysis on, and I do think the draft bill does that, as well.

Mr. NUNN. I would agree with you. Mr. Rathmell, you have identified here that the lack of clear Federal framework has driven developers to avoid launching new tokens out of fear that they will be retroactively labeled securities by the SEC. Are you seeing any change now that the Trump Administration has prioritized digital asset legislation?

Mr. RATHMELL. Thank you, Congressman. We have seen a change in the general attitude in the market. I think there is a lot of hope. There is a lot of enthusiasm that there is going to be market structure legislation, but the rules have yet to be written. And so we really do need to pass legislation to provide that crystal-clear clarity for founders to have the certainty they need to pursue token projects and decentralization.

Mr. NUNN. And then, Mr. Tusar, I would like to go back here. When you are providing the CFTC with spot market authority, would that give your clients greater confidence to support U.S. capital formation, having it come back here to the U.S.

Mr. TUSAR. Thank you for the question, Congressman. It absolutely would. I think that is exactly the sort of clarity, clear rules of the road that people would feel more comfortable and not at risk for being able to develop their projects, and we think it is critical for U.S. competitiveness, going forward.

Mr. NUNN. So, Mr. Chair, what I am hearing, and I think this has happened across the board, we believe that we have the opportunity now to bring digital assets back into the United States. We have the opportunity to create legislation that forms clear regulation. We have an opportunity to take a digital asset, in this case chocolate, wrap it in a way that the SEC has a partnership so they can go [unclear], and then still take it back to the CFTC so it can be traded in an effective way. And I will just say, Mr. Chairman, it is a pretty sweet deal, if you don't mind me saying so.

I really appreciate the Committee coming forward on this. Thank you.

Mr. STEIL. The gentleman from Iowa will present the candy to the chair for further review, to be held on the record.

The gentleman from Montana, Mr. Downing, is recognized.

Mr. DOWNING. Thank you, Mr. Chair, and I will share in that chocolate, as well.

Thank you, Mr. Chair, for holding this, and thank you to the witnesses for being part of this incredibly important roundtable. I really appreciate your time here.

I also sit on the Capital Markets Subcommittee, and we spend a lot of time talking about how to raise capital, how businesses can go public, a lot of that sort of stuff. And unfortunately, the Gensler SEC made it really difficult for innovators and entrepreneurs to raise capital, especially in the digital asset space.

And Mr. Miller, from my home state of Montana, thank you for being here. I know you talked about it a little bit before, but I am just curious, if you were to do it again would you do another Reg A offering in this environment, and why or why not?

Mr. MILLER. Thank you for the question, and we would not opt to do that. So as I mentioned during my opening statement, we ended up likely spending more on all of our compliance with the Reg A, the filing, the ultimate investigation by the SEC, than we actually raised from it. So there is really no way to do it, and this is what does have me hopeful about what we are seeing in the bill that came out, is that is exactly what we tried to do. Let's do an offering and then decentralize the network, and it becomes a commodity. And it is when we tried to take that step, because there was no framework, because there was no basis in the law for it, we were just left to the whim of the interpretation of the SEC, who is responsible, as let's launch an enforcement investigation and cost you another \$3 million.

Mr. DOWNING. Do you think it would be helpful if Congress created a specific digital asset exemption?

Mr. MILLER. I think there is no other option than for Congress to create a specific digital asset exemption.

Mr. DOWNING. Thank you. I am going to go to Mr. Rathmell. The previous Administration sought to treat every digital asset, regardless of its purpose, as a security, and actually, as a former regulator, it made it difficult for me as a regulator. Somebody was mentioning the *Howey* Test earlier, and just understanding that, and the

ambiguities of actually running a business and not knowing where that bar was I think is incredibly disadvantageous for digital assets in this space.

And I was hoping you could explain to me why it is a bad idea to treat every digital asset the same.

Mr. RATHMELL. Thank you for the question, Congressman. A digital asset is ultimately a computing primitive, so much like the chocolate coin example, the wrapper can contain many different assets. It is multimodal. It can evolve over time, has many different attributes. And therefore, having a uniform application is (a) undermining the promise of the asset class, and (b) making it absolutely impossible to comply with the law.

Mr. DOWNING. So would that promote or hinder U.S. innovation?

Mr. RATHMELL. Having regulatory clarity would promote U.S. innovation, absolutely.

Mr. DOWNING. Thank you. Mr. Tusar, many digital asset skeptics have expressed concerns that consumers and investors are at a heightened risk of being scammed or losing money in the crypto industry. At the same time, many crypto companies have stayed away from doing business in the United States due to opaque regulations.

So would consumers be better protected if more digital asset companies were encouraged to do business, with some commonsense consumer protections, in the United States?

Mr. TUSAR. Thank you for the question, Congressman. There is no question that it would be the case that there would be more confidence and more consumer protections if something like the bill under discussion here were passed and we had clear rules of the road for Federal-level regulations, and importantly, for Federal-level regulations here.

Mr. DOWNING. I think it is important that we get this right, that we are innovating in the United States of America, that we make it clear where the bar is set when digital assets are coming, and make it clear how it is being treated in a regulatory framework. So I really appreciate you all sharing your perspectives with this, and I will say roundtable—I am not sure what to call it at this point. I appreciate it. I think this is an exciting time in the United States of America to create some clarity so that we can innovate and make sure that people understand what the rules of the road are so that we continue to grow, obviously, this incredible opportunity for us.

So on that I yield my time. Thank you, Mr. Chairman.

Mr. STEIL. The gentleman yields back. The gentleman from Illinois, Mr. Foster, is now recognized.

Mr. FOSTER. Thank you, Mr. Chair, and to our witnesses, and my apologies. I had to calm a set of scientists who are pretty much panicked at what is happening in our scientific enterprise in this country these days.

When I have described to my staff the 212 page bill under discussion, it strikes as more or less 212 pages of regulatory arbitrage, that when I talk to foreigners, foreign financial people, about the United States, they think it is, frankly, insane that we have two regulators, CFTC and SEC, that often end up regulating indistinguishable products, or almost indistinguishable products, with endless time wasted in courts trying to split hairs on this.

This does not happen in countries that have a unified market regulator. And when I first came to Congress, gee, 17 years ago, I read this big blueprint for financial modernization by, I think it was Hank Paulson and friends back then, and high on that list were references going back to the past of the need to merge the regulation of the two operations.

And it strikes me that crypto may be an opportunity to begin that, that even if you believe that the path towards formally merging the regulators may take decades to complete, that there may be an opportunity to make a unitary crypto regulator, that is a joint project of both, joint project of these committees, and that would actually allow a single point of contact for crypto startups, which is one of the things they complain to me all the time, and I am sure they complain to everyone else.

So I was wondering, I am sure you have all heard of proposals of various kinds to do this, and if you could just sort of go down the line and describe what are the aspects of that that you think might be feasible, might be attractive, and any advice you would have to Members of Congress that might be interested in finally listening to the advice we have gotten from everybody for the last 30 years and starting down this road.

So if we just start on the left and march down.

Mr. RATHMELL. No, thank you Congressman. It is a very thoughtful question. You are absolutely right. There is incredible fragmentation both at the Federal and state level in terms of our market regulation. I can't speak to the particular opportunity

over the coming decades to merge the SEC and CFTC, or other Federal market regulators, but what I can say is that digital assets are, in many ways, kind of a forcing function to unify regulation in that our belief at Haun Ventures is that digital assets and blockchain technology will be the underpinning of the future capital markets, global financial system, and the [unclear] internet.

And so there is very much a unique opportunity here to, through the unifying nature of this technology, bring some unifying principles to the market.

Mr. FOSTER. But principles, not an organization. That doesn't give you a single point of contact. Mr. Miller?

Mr. MILLER. Yes. I think the clarity and simplicity is the biggest thing I would ask for there. I think there are other folks here who are much more experienced on the internal workings of agencies and how to maybe best set it up. But I think as long as whoever is designated as regulator has the expertise to understand the crypto market and what they are dealing with and looking at, and I think understands the importance of, again, we are not talking about these large public companies with \$1 billion a year in revenue who can afford \$10 million a year in compliance cost. We are talking about people who maybe raised a couple million dollars, or even bootstrapping it, and where the compliance costs and the engagement needs to be in the five, maybe six figure range. As long as whatever set-up we come up with that, I think that is the most important thing.

Mr. FOSTER. Mr. Davis?

Mr. DAVIS of Washington. It is very tricky because both the SEC and the CFTC have different regulatory philosophies, different mandates, different organizations, and different areas of focus. So I know this idea, it seems to recycle all the time, and it is worth discussing. But as someone who has been in the middle of the CFTC and has worked with the SEC on a number of issues, it is very difficult for me to see practically how the mergers of those two agencies would be accomplished without a lot of unintended consequences.

Mr. TUSAR. Congressman, I am not sure that I have a lot to say on the benefits of merging the two, but I would reflect back on my remark at the very opening in my statement, which is this bill is a once-in-a-generation opportunity to think from first principles about all of our market structures, be they on the CFTC side or the SEC side. Digital assets today, in the way that they settle, for example, and the real-time nature of their settlement, means that we don't have credit risks and other things building up in our system in a way that our current market structure, on both the equities and the futures side, are intended to deal with. And I think that is a once-in-a-great-while opportunity to think, from first principles, about how we create consumer protection, fair and orderly markets, and all these things, taking advantage of some of the real efficiencies of the digital asset space.

Mr. BEHNAM. Congressman, I think it is easy to make a comparison across borders about why we are unique relative to other jurisdictions, having two market regulators. Some even have a single central bank and market regulator. But the missing factor or assumption there is that there is a distinct, comparable size in markets, and that is what truly sets America apart and why two market regulators are critical.

Adding to what Mr. Davis said, if you look at the size of the securities market alone and the derivatives market alone, they are, by multiple factors, greater than any other jurisdiction in the world. So merging the agencies or any suggestion otherwise, which wouldn't surprise me for a registrant to suggest that, and I believe pretty strongly given my former role, would be a disservice to the American public and American investors.

Mr. FOSTER. Okay. So it will just persist for another 30, 50 years until we have another really big crisis that we can't let go to waste. During Dodd-Frank we got rid of one banking regulator, and that was sort of the limit of what we had political muscle to do.

Okay, well, anyway, thank you for this.

Mr. STEIL. Thank you very much, Mr. Foster. The gentleman from Ohio, Mr. Taylor, is recognized for 5 minutes.

Mr. TAYLOR. Thank you, Chairman Steil and Chairman Johnson for holding this hearing today, and thank you to all the witnesses for your time and insight and sacrifices to be here.

I must say, I am struck by what happened here today. Our Democratic colleagues have made serious allegations about the President's misuse of cryptocurrency, and their solution seems to be sabotaging a hearing dedicated to establishing a framework to prevent abuses in cryptocurrency. If they believe President Trump is wrongly benefitting through malfeasance, surely it would be their duty to do all they can to advance a regulatory framework so that it doesn't happen again. Apparently it is not that urgent.

I have lived in rural southern Ohio my entire life. When I decided to run for office I did so primarily because I wanted to help enact policies that would spur economic growth across the country, and particularly in the communities I represent. As a small business owner, I ran into several regulatory and bureaucratic hurdles that impeded growth due to, in my opinion, overregulation.

Mr. MILLER, in your testimony you mentioned how, in Hiro's case, efforts to comply with unclear digital asset regulations ended up being extremely time-consuming and costly. Can you tell us where your resources and time might have been directed had those hurdles not been in the way?

Mr. MILLER. Thank you for the question, Congressman. Fundamentally, we are a developer tools company, right. We build the infrastructure and the tooling that builders need in order to go build this next generation of technology and applications. So every dollar of ours, every hour of ours that got spent on sitting in rooms with lawyers and trying to guess at what the law might be or what it might become one day was just one more minute we couldn't spend trying to enable folks to build.

Mr. TAYLOR. Mr. Rathmell, the United States has long been a pioneer in innovation and entrepreneurship. In order to continue to be a leader in this place we need to create an environment that is both an attractive place for startups and one that encourages our best and brightest to take risks. Without a clear framework it sounds like the U.S. is in danger of falling behind the rest of the world.

Can you speak more about how you think entrepreneurs and innovators will respond if the United States continues without a regulatory framework?

Mr. RATHMELL. Thank you, Congressman. It is a great question. My primary concern would be that we have already seen a flight from the United States as the premier market and innovation, and that without correcting course that we would see further flight.

Mr. TAYLOR. Could you tell me a little bit about what other countries have done with their regulatory framework that encourages innovation in the digital asset industries?

Mr. RATHMELL. We have seen, in the EU, and we have seen in the U.K., and we have seen in other jurisdictions that they moved quickly with a unifying framework that is workable, that works for token launches, addresses consumer protection, addresses market integrity. And it is the inaction in the United States that has caused so much trouble.

Mr. TAYLOR. Thank you. Any framework that we put into place for digital assets will likely require the cooperation of the SEC and the CFTC, as we discussed a few moments ago. Mr. Davis, what are some examples where the SEC and CFTC have had to work together, and what lessons can we learn from those experiences to apply to market structure legislation in the digital asset space?

Mr. DAVIS of Washington. An excellent example is security futures. That was a new product that came online a couple of decades ago. And it wasn't clear from statutory text on which side the line was. In that circumstance, the then two Chairmen of the respective agencies got together and hammered out a mostly quantitative process for determining when a future was just a future and subject to CFTC jurisdiction, and when something should be considered a security future and subject to both agencies' jurisdiction.

That was the Shad-Johnson Accord. That was presented to Congress, and Congress implemented that. I think that is a great example of success of the agencies working together to come up with—and there are still debates about some aspects of that test. But a lot of that test, it is very clear one way or the other whether you are meeting one of the standards or not. So the agencies have certainly shown that.

I think you have also seen that early on after Dodd-Frank. Both agencies had to a lot of joint rulemakings, in a very short period of time. I was not there at the agency at the time. I am told it was an incredibly busy period, and there was a lot of work with the SEC.

So the agencies have definitely demonstrated the ability to work collaboratively together. It helps when you get good marching orders from Congress.

Mr. TAYLOR. Thank you, and thank you to all of you. Chairman, I yield back.

Mr. STEIL. The gentleman yields back. The gentleman from South Carolina, Mr. Timmons, is recognized for 5 minutes.

Mr. TIMMONS. Thank you, Mr. Chairman, and I want to thank all of you for being here today. It is unfortunate that our colleagues across the aisle have not made full use of this time. I am glad that we have not wasted your time and that we have been productive with this, not hearing, roundtable today.

It is really important because your insights are essential as we work to pass a comprehensive market structure bill for the digital asset sector. Today I want to highlight the transformative potential of blockchain technology in not only reshaping

ing our financial systems but in redefining how we interact with government itself. For that innovation to take root and thrive here in the United States, we need clear, effective legislation that end to the regulatory uncertainty developers face today. For too long, digital asset innovators have taken their business abroad, to places like Hong Kong and the EU. They have clearly defined rules, and other jurisdictions with more favorable regulatory environments, such as the Caribbean or the Middle East.

But now, for the first time, the industry has a champion [audio distortion] and a Congress ready to act. And we have a real opportunity for a framework that supports innovation while providing the clarity and oversight needed to protect consumers and ensure market integrity. This is not a partisan issue. Republicans and Democrats have been working on this for years, and we are ready to get the job done.

I would like to start with you, Mr. Rathmell. In your testimony you stated that clarity isn't about giving digital assets special treatment but rather about establishing a consistent set of rules so that you build confidence here in the United States. I completely agree. When it comes to pioneers in this space, in your view how does not having a clear legal framework hold back their inability to innovate, particularly in reference to the tokenization space?

Mr. RATHMELL. Thank you, Congressman. It is a great question. The primary way in which it hinders American innovation is that it is a misallocation of time and resources. We have seed-stage founders—I have also represented many seed-stage start-ups outside of the crypto industry, and those founders are not spending their days and nights worried about enforcement actions, concerned about the regulatory framework, and on the phone hours and hours and hours with very expensive lawyers, try to read the legal tea leaves. And so that misallocation of time, away from building products that consumers and enterprises are using, away from thinking about how they can be innovating and bringing value to the American market, it is waste.

Mr. TIMMONS. So I have a question specifically with regard to [audio distortion] market structure there is a bipartisan bill that has been filed regarding NFTs. I view those three as all important. Obviously, they are not going to go together. But this proposed legislation has studied grantees. Do you think that the [audio distortion] proposed bill, by a year plus, would that be—how would that impact the overall development of this ecosystem?

Mr. RATHMELL. Well, certainly digital assets can take many forms and functions, as we have talked about at length today. I think one of the greatest challenges in moving these pieces of legislation together is going to be ensuring that all of those different use cases are covered under reasonable framework that is applicable to the use case of that digital asset.

Mr. TIMMONS. Thank you. [Audio distortion] process of passing laws and regulations to govern digital asset markets. One consistent theme across many of these efforts is how they treat decentralized finance, or DeFi. For example, in the EU, U.K., and Hong Kong, they have all [audio distortion]. Mr. Rathmell, in your view, why do these jurisdictions take that approach, and do you think Congress should consider doing the same?

Mr. RATHMELL. Yes, and thank you, Congressman. The DeFi space is a particularly interesting and complex corner of our industry. An interesting element of DeFi is that it is really a realization of kind of one of the core promises of crypto, which is that it is fundamentally a disintermediated technology. And the existing kind of global market regulations really do focus on, generally do focus on intermediaries as a core regulatory hook. And so addressing DeFi on its own grounds and making sure that it has the space to flourish and actually generate the incredible value that it can for consumers and the public and enterprises is very important.

Mr. TIMMONS. Thank you, Mr. Chairman. I yield back.

Mr. STEIL. Microphone issues here. The gentleman yields back. Would Mr. Stutzman like to be recognized, or would Mr. Moore like to be recognized? Mr. Stutzman is recognized.

Mr. STUTZMAN. Thank you, Mr. Chairman, and thank you to each of the witnesses here today for your expertise and sharing with us your perspective and testimony. As was mentioned, this is obviously, I think one of the issues that could be bipartisan, and if there is anything that is new to Congress, this is one of those issues that is kind of new to all of us, and we are trying to understand and wrap our heads around the direction of a very exciting technology, and very innovative and important not only to the United States but to the world. And this is an amazing piece of technology that could be an economic development tool to emerging countries and others around the world that are truly trying to find stability and currency issues, and also with, of course, the governance in other parts of the world that are just,

frankly, criminal, that this could really be a helpful tool. So I appreciate your expertise and what you are discussing today.

Mr. TUSAR, I would like to talk with you just a little bit. In your testimony, it is time to update the system, you mentioned in your testimony that the legislation would be built on a foundation established by FIT21, and then you said, “this effort should clarify asset classifications defining which digital assets are securities and which are commodities, and empowering the CFTC. We talked about this a little bit the other day in another meeting, but these are really, I mean, it can be both, right? It depends on how you want to use the tool.

What are some of your thoughts further on how do we clarify? And so you mentioned addressing emerging challenges. What other challenges would you suggest, or have you dealt with? Because I know security for Coinbase and any other company is highly important and it also gives confidence to the users.

Mr. TUSAR. Thank you for the question, Congressman. Yes, security for digital assets is probably the single most important thing we do for consumers and it gives people confidence in Coinbase. I think that some of the other issues, I think the number one most important thing to come out of this bill is classifications. We are excited for some of that to provide the necessary clarity going forward.

Mr. STUTZMAN. Thank you. I guess I am having some mic issues here. I want to jump back to Mr. Miller. Capital raising is a critical component of both the traditional security markets and the digital asset ecosystem. In the traditional security markets, investors provide capital in exchange for legal claims and ownership repayment or income streams.

In the digital asset ecosystem, do investors receive the same rights from their participation in a capital raise, and are the proceeds of the raise used in the same manner as the proceeds from traditional securities offerings?

Mr. MILLER. So in short, no. They look definitely very different. In the traditional capital raise, you have very established structures around equity, whether the rights of shareholders are governed by the corporate laws of whatever state you were formed in.

The digital asset world and blockchain, it looks very different for these folks. It can also vary by exactly [audio distortion] simply that there can be more direct engagement through government mechanisms that are built into blockchain. The tokens that you are holding almost always are going to have a facility and a purpose to it, what is being used to pay for and create the transactions on the network. And most importantly, it is the incentive mechanism for a network. You cannot have a decentralized interaction with all these different parties without some sort of incentive mechanism, the same way that we have dollars in much of the economy.

So it is simply very different and it comes back to why we are coming here today and asking, and saying yes, a purpose-fit structure, legislation, that creates a category that would be necessary for us to really have [audio distortion] that people need.

Mr. STUTZMAN. So comparing your more traditional pitch deck and disclosures and the language that investors would have access to through a particular capital base, how would you compare that to a crypto piece, where it seems like an investor may be doing it at 10:00 at night, before they go to bed, and it is a little bit more cavalier. I mean, are there enough safeguards in place and explanations in place for the more, I guess, amateur investor? [Audio distortion] into the game.

Mr. MILLER. Yes, absolutely. I think we might have the idea of someone just hitting “Buy” on their phone, while lying in bed, but you also see in this industry a huge number of people—again now that it is decentralized on a distributed basis, to do really incredible research. They will go through the white papers. They will look into these things. They will check the code. It is all published on GitHub. These are open-source blockchains where the code is freely available.

Mr. STEIL. The gentleman’s time has expired. Thank you very much.

Mr. STUTZMAN. Thank you.

Mr. STEIL. The gentleman from North Carolina, Mr. Moore, is recognized for 5 minutes.

Mr. MOORE. Thank you, Mr. Chairman. I am not sure if this mic is working or not. I don’t know that it is working or not. I have never been accused of being a quiet guy, so either way I think we will be fine.

So I guess you will just have to hear me this way. Thank you, Mr. Chairman. At some point, by the way, Mr. Chairman, I am going to have to understand the rules, how two or three people that are having a meltdown for some reason can disrupt a Committee and make it a roundtable. But I am going to read up on that at some point later on.

I do want to thank our witnesses who have been very generous with their time to be here today and to provide very helpful information to this hearing today. And

what it seems to me is that, frankly, our country really is at a crossroads right now when it comes to the regulation of digital assets. Frankly, the lack of framework that we have in the country really seems to have pushed everything offshore and allowed businesses, of course, to be based offshore. That is how capital is going to flow, and that is what is happening.

But it seems to me that if we want to try to keep moving things back to the United States, that is certainly what the President is wanting to do, do manufacturing here, I think it is incumbent upon us as the world power, the world-dominating power, economically, militarily, you name it, that when it comes to digital assets that we have more of that here in the U.S. So I applaud, Mr. Chairman, the leaders of the respective committees, both the Ag as well as Financial Services, in taking this seriously.

But I will ask a question first to Mr. Rathmell, and I will just simply say this. What does it mean for the U.S. that, as has already been alluded to, even Representative Taylor mentioned this, that the EU and the U.K.—

Mr. STEIL. The gentleman will suspend for just a minute. Some of these mics are cutting out. We are going to continue to try to do this. I know a lot of people are watching on a livestream and unfortunately aren't able to hear. [Audio distortion.]

Mr. MOORE. They are kind of flickering. They look like Christmas lights. They are green and red, and they flicker off and on over here. I don't know. Maybe the mics are tired. I don't know.

Let me just say, here is the question. What are the long-term consequences, frankly, if we simply allow digital assets, and this whole capital as a result, to be offshore instead of here in the United States?

Mr. RATHMELL. Thank you, Congressman. First and foremost, it means that we are ceding leadership in the digital assets industry and all of the next generation of innovation that entails. More critically, we believe that the future of everything from consumer technology to the global financial system to global capital markets is going to be leveraging this technology in the future. It is not just about ceding future innovation over the coming decades, but it is also ceding kind of a leadership role with respect to the areas that we traditionally have been leaders on.

Mr. MOORE. Okay, and I agree with you, frankly. But, this isn't a new issue. I think in 2020, my understanding is the Federal Reserve Bank in San Francisco determined that one in eight Americans purchased digital assets. I believe that number now is one in three. That is a tremendous increase. And the notion that we would allow  $\frac{1}{3}$  of our population to not be able to fully participate in an environmental regulatory arrangement in the United States just is confounding. So digital assets are not going away. It is not only the future but it is also the present.

Mr. TUSAR, I will ask you a question, as well. By the way, thank you for being here today. Given this, how important is it that Congress act to establish the well-regulated digital asset marketplace.

Mr. TUSAR. Thank you for the question, Congressman. I think it is critically important, and I think as Mr. Rathmell said, not just the importance of having consumers be protected, all the things that we have talked about, but I think the point that was just made is critical, that this is really the future of capital markets, and for the U.S. to continue to be the envy of capital markets around the world with respect to how collateral is moved, and all of the things are sort of critically important to well-functioning markets.

This bill is the foundation of a lot of that technology that will be in place. So for the U.S. to continue to be the capital market leader around the globe, this is critically important.

Mr. MOORE. I agree with those comments, as well. Again, the mics are doing all sorts of great stuff over here right now. You don't know the chair of the Administration Committee do you?

[Laughter.]

Mr. STEIL. There is an engineer on the way.

Mr. MOORE. For what it is worth, they do work better than the heat in my office. I will just say that.

[Laughter.]

Mr. MOORE. Let me just wrap up with this and say this. I want to thank each and every one of you for testifying today. I think your testimony is extremely helpful, and it does show the opportunity that we have to get serious folks in the room and enact a bipartisan piece of legislation. I hope that some of the folks who decided to do something different this morning may at some point come back to the table. Regardless of whether they do, I think both these committees are going to move in a very serious way to really try to address this, and I just thank you all for taking your time today to be here, before Congress.

And with that, Mr. Chairman, I yield back.

Mr. STEIL. The gentleman yields back. We are in the Agriculture Committee room, not Financial Services, so maybe—no, I am teasing to our good friends at Ag. But the gremlins are at work. We do have an engineer on the way.

The gentleman from Michigan, Mr. Huizenga, is recognized.

Mr. HUIZENGA. Thank you, Chair Steil. And while this may have started off a little awkwardly I am hoping we are finishing strong today, because this is so important what we are dealing with here. Having now in Congress, this is my eighth term, having been on the very front end of digital asset discussions for a very long time on this, this day has been long coming, and it is necessary.

I am going to try to hit a couple of things here. Many digital asset projects reach the point where they are no longer reliant on a group or an organization but rather their success is contingent on the collective contributions of a dispersed network of users. Mr. Miller and Mr. Rathmell, can you address why this is a key point in the development of a digital commodity project?

Mr. MILLER. Sure. I think it is relevant for two purposes. One, obviously, when we are looking at current securities law, the current regulatory regime is all based on someone having control over this thing, so that is really one of the points at which the current regime breaks and really needs something new.

But just fundamentally, those are two very different pieces. One organization or one entity has the ability to make changes and issue things to create. That is a very different environment than when you have [audio distortion] centralized group of people who are participating in an open economy. And there is really no way for that to thrive here without the [audio distortion] legislation to it. And since that is really where the world is going, what is happening one way or another, I very much want to see it happening here.

Mr. HUIZENGA. Mr. Rathmell?

Mr. RATHMELL. Thank you, Congressman. Fundamentally, the securities laws are based on the principle of information asymmetries existing out in the marketplace, where you have a certain set of participants who have specialized information about their company. And digital asset projects, especially once you have reached decentralization, you should be much more focused on market integrity, efficient price discovery, broad-based participation in the markets, to ensure that efficient price discovery, and anti-fraud provision and the like.

So once you achieve that point at which the token is effectively decentralized, it is critical that you shift your regulatory focus, as well.

Mr. HUIZENGA. And it really is talking about changing the risk for the holders. Correct?

Mr. RATHMELL. Correct, yes.

Mr. HUIZENGA. Okay. How should we, or how should a regulatory regime for digital assets recognize that transition?

Mr. RATHMELL. The transition is really when we think about those information asymmetries no longer being a driving force of the value of the asset. So when an asset is primarily—

Mr. HUIZENGA. It is mature.

Mr. RATHMELL. It is mature. Correct. When it is primary determined by supply and demand dynamics, the use on the blockchain network, security of the blockchain network, that is when you achieve a point at which market integrity is the primary driver and the primary regulatory focus.

Mr. HUIZENGA. I am going to stick with you. In my various roles on this Committee I have been Chairman and Ranking Member of the Capital Markets Subcommittee, primarily with the Securities and Exchange Commission. And whether it was Jay Clayton, Gary Gensler over the last number of years I think we saw some very different approaches to the use of the SEC. The Gensler-Biden Administration chose to regulate digital assets by enforcement, and the SEC, under the Trump Administration, has taken a very different approach. Crypto task force, they have really had just a different attitude at the SEC.

So Mr. Rathmell, can you some of the actions that the current SEC has already taken with respect to digital assets and explained the impact of what this activity has had for digital asset projects and the markets that have been built around.

Mr. RATHMELL. Absolutely. I will highlight three quick things, very briefly. First is just engagement with industry, really understanding the concerns of industry and not having market participants who don't feel like the door is being shut in their face. That is very important.

Second is really actually putting out—obviously, the market structure legislation will be the ultimate driver of how these markets are regulated, but putting out, under existing law, clear legal analysis and clear legal guidance that is publicly available to entrepreneurs is a really incredible step forward. And I think the amount of legal guidance that we have seen, and legal analysis that we have seen

coming out CorpFin, coming out of the SEC broadly, just in the past couple of weeks, has far outpaced what we have seen in the preceding 5, 6, 7 years.

Mr. HUIZENGA. I am going to submit some questions, as well. But if you could give me, each one of you, a super quick answer to this question. If Congress were to not pass a digital asset market structure legislation, what would be your biggest concern? Just give me your top concern if we don't actually get this done.

Mr. RATHMELL. The loss of American innovation.

Mr. MILLER. Complete loss of competitiveness in the international economy on this.

Mr. DAVIS of Washington. Fighting things out in the courts instead of developing here.

Mr. TUSAR. I agree with the point on competitiveness and U.S. capital fleeing elsewhere.

Mr. HUIZENGA. Okay. That is a key. Okay. Mr. Behnam?

Mr. BEHNAM. Continued unchecked fraud and manipulation of markets.

Mr. HUIZENGA. All right. Well, with that, Mr. Chairman, I know my time has gone over, and I yield back.

Mr. STEIL. The gentleman yields back.

I want to thank all of our participants. I think what we heard today is the need to move forward on a market structure bill. We began this by trying to have a joint Subcommittee hearing between Agriculture and Financial Services, an open, public dialogue on incredibly critical and important legislation. Disappointing, a small number of Members chose to protest and walk out. But what I think we actually saw today was a large number of Members from both the Majority and the Minority side engage in the substance of the topic, because that is what the way calls for.

I think in the closing question from my colleague, Mr. Huizenga, I think what we actually laid out is failure to act has consequences, and if we fail to act and seize this moment, we will find ourselves in a situation where we are being outcompeted by other countries like China.

This is an opportunity for the United States to seize the moment, to step up, to lay out a framework so that innovation in development is occurring here in the United States of America and not abroad, to provide clarity so that the new inventors, creators, innovators, and developers are here and working and finding themselves with their ideas in basements and dorm rooms, not in boardrooms and law firms.

This is an opportunity for us to seize the moment. It is disappointing that a small number of individuals chose to put their head in the sand and exit the room and prevent us from having a hearing. But I think today's roundtable, with your testimony, with the questions and the comments provided here in this room, provide us with a clear path forward, and shows the importance of the market structure legislation introduced this week by Chairman French Hill and Chairman GT Thompson. And I thank all of you for participating today.

I know there may be some additional questions submitted to our experts here at the roundtable. I would ask that you would provide comments back to the Committee with short notice.

So we appreciate all of you being here today. We thank everyone for their participation, and the roundtable is concluded.

[Whereupon, at 12:58 p.m., the roundtable was adjourned.]

